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Korean Manufacturers Need to Shift Paradigm

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Korea-China FTA

Korea has signed a free trade agreement with China, its largest trade partner. Although some criticize the agreement for its hastiness and lower-than-expected market opening, there is no doubt that the Korea-China FTA will pose both a challenge and an opportunity for the Korean economy as it goes through these harsh times.

However, concerns are rising over the increasing dominance of Chinese products in the Korean market. Cheap electronics, cars, and many other types of consumer goods are poised to flood the Korean market entirely. Korean consumers will inevitably become even more familiar with Chinese manufacturers' names than they are now.

In the other FTAs it has signed, the Korean government has emphasized the potential advantages in the manufacturing sector while considering some losses in the primary industry to be inevitable. Still, the Korea-China FTA may be different from the others. Korean manufacturers may not be capable of coping with the rapid growth of their Chinese counterparts.

The government has said that it minimized the degree of market openness when it comes to primary industries, so that those engaged in it can enjoy at least some protection. But in fact Chinese agricultural, fisheries, and livestock products have all been around for years. Farming households in Korea have already lost their competitiveness against China. They are likely to face even greater difficulties once the tariffs on various items are cut by the free trade deal.

Nevertheless, the conclusion of the Korea-China FTA is especially meaningful for us in that it is a free trade agreement for economic integration with a very significant economic bloc. The KORUS FTA and the Korea-EU FTA are long-distance and entail high transport logistics costs, but that between Korea and China is Korea's first FTA with a neighboring country. This signifies that Korea and China will undergo close market integration, like the U.S. and Canada via the NAFTA.

Economic integration requires systemic consistency, not only in commodity exchanges, but also capital transactions. As such, both countries need to tear down tangible and intangible business-impeding barriers. This is why the protection of intellectual property rights, investor protection, and the preparation of dispute settlement measures are particularly important in the Korea-China FTA.

The agreement has significance in terms of national security and diplomacy, too. It can function to deter North Korea alongside the KORUS FTA and the ROK-U.S. Mutual Defense Agreement, and in the longer term, can play an important role in inter-Korean reunification.

Some steps still remain until the final conclusion of the deal, including coordination of the details between interested parties and ratification by the National Assembly. During the period, the Ministry of Trade, Industry and Energy, as the main negotiator, has the responsibility to find the best deal available with the corporate sector and the government as a whole.

Park Jung-hwan,
Publisher & Editor-in-Chief

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Wiretapping Controversy

Daum Kakao's Noncompliance with Wiretapping Warrants Causing a Stir

Democratic United Party lawmaker Jun Byung-hyun, a member of the Science, ICT, Future Planning, Broadcasting and Communications Committee of the National Assembly, said that 95 percent of annual packet monitoring is performed by the NIS, based on a report recently submitted by the Ministry of Science, ICT and Future Planning.

According to the report, the Web monitoring was conducted on a total of 1,887 lines last year with 401 monitoring permits issued, and 1,798 out of these were done by the intelligence agency. Between 2010 and 2013, packet monitoring by the prosecution and the police decreased, whereas that by the NIS increased by 42 percent. According to the ministry's data, an average of 5.4 lines were monitored in 2013 based on each packet monitoring warrant of the NIS for communications restrictions.

"Although the Supreme Court is regarding Internet messenger messages not as a monitoring target, KakaoTalk has provided chats more than necessary, even without putting effort into authoritative interpretation as to the warrant," he said, adding, "KakaoTalk chats between approximately 300 users have been unduly provided in view of the average number of the lines covered by each warrant."

As Daum Kakao's announcedthat it will no longer comply with the government's wiretapping warrants on its users, the necessity of social consensus is emerging. Daum Kakao announced on Oct. 13 that it will take extra measures on full scale to protect the privacy of the users. The company announced that it cut down the duration of which the messages are saved on its servers from seven to a maximum of three days as of Oct. 8, and stopped honoring court warrants for real-time monitoring as of Oct 7. A statement that Daum Kakao gave to BusinessKorea reads, "Daum Kakao will make privacy its top priority when there is a discord between privacy and the law."

Violation of the positive law can be avoided if messenger chats are not stored on the server, since the company does not have the capability to monitor conversations in real time. However even legal eavesdropping becomes impossible then, and criminals threatening national security cannot be observed. Under the circumstances, experts point out that an alternative is required that protects both privacy and offers security at the same time.

Persistent Controversy over Illegality

According to current law, every telecoms operator has to comply with the communications restriction measure and communications data requests

As Daum Kakao declared that it will not comply with wiretapping warrants, the prosecution suffered a major setback in its investigation.

Lee Sir-goo, CEO of Daum Kakao, bows his head in apology for not understanding the concerns of its users at a press conference on Oct. 13.

from investigators. However, it does not specify any penalty for those violating the provision. This is why Daum Kakao CEO Lee Sir-goo is said by many to be innocent with regard to his disobedience of the warrants.

It is also said that the regular disclosure of transparency reports mentioned by Daum Kakao could be problematic. “The disclosure of the report could constitute a breach of confidentiality stipulated in Article 11 and be subject to a prison sentence,” an industry insider explained.

“Strictly speaking, opened KakaoTalk messages are not a result of wiretapping but the result of search and seizure,” said the Science, ICT, Future Planning, Broadcasting and Communications Committee of the National Assembly, continuing, “Daum Kakao, which has no real-time monitoring capability, is not refusing to comply with the request but unable to do so.”

The controversy is likely to further heat up, as the CEO is scheduled to testify in the parliamentary inspection of the Seoul High Prosecutors’ Office on Oct. 16. The opposition parties criticized the authorities as having caused the company to resort to supra-legal measures by over-zealous investigations during the parliamentary inspection of the Ministry of Justice on the preceding day.

What if Wiretapping Is Required?

In the second half of 2013, the National Intelligence Service (NIS) tapped 2,416 phone numbers, 96 percent of all wiretaps. More than 70 percent of the wiretapping performed by the intelligence agency covers foreign missions. “Foreign missions themselves are aware of the fact that the NIS overhears them,” a lawmaker pointed out, adding, “This is an international practice, and other countries are doing exactly the same thing for national security purposes as we do.”

The United States has allowed a much higher level of eavesdropping since the Sept. 11 attacks. Germany and Belgium even hack PCs and smartphones to forestall terrorist attacks before they start. With the situation as it is, both government and industry are required to pool their wisdom to assuage public concerns while maintaining essential communications monitoring for national security. Those calling for this step are asking national agencies to build trust before anything else and laws to be revised to strike a balance between privacy protection and national security.

In the meantime, Internet companies such as Daum Kakao, Naver, and SK Communications will meet with each other on October 17 or later in order to prepare countermeasures against cyber censorship. The idea is to overcome the illegality controversy that Daum Kakao is suffering from by coming up with proper measures and stop anxiety from spreading to the whole of society by Daum Kakao getting beaten up by the media.

Alternative Solution

As Daum Kakao declared that it will not comply with wiretapping warrants, the prosecution suffered a major setback in its investigation. Therefore, it is considering whether to administer wiretapping warrants by visiting Daum Kakao with eavesdropping equipment.

“Wiretapping warrants are enforced in the case of murder, abduction, and violation of the National Security Law,” remarked Kim Su-nam, head of the Seoul Central District Prosecutor's Office on Oct. 19. He continued by saying, “Due to Daum Kakao's decision to disobey wiretapping warrants, some problems with investigations on these kinds of serious offenses are expected. So, we are considering various countermeasures.”

He added, “Since a lack of equipment is cited by Daum Kakao as the reason for its noncompliance with wiretapping warrants, we are considering whether to dispatch prosecution investigation officers and IT experts equipped with the necessary equipment to the company in order to obtain communications data in real time.”

Eavesdropping on communications via KakaoTalk has played a major part in the investigation of criminal cases and those involving public safety, as shown by the fact that the method provided a major clue in catching spies in December 2013, who were engaged in espionage activities by partnering with North Korea's espionage agency.

But is it possible to execute wiretapping warrants in this way? An official at one of the courts in the nation, said, “Legally, there is no problem.” The official added, “If communications companies are required to have listening devices, it will be a big burden for them. So, it will be more desirable for the prosecution to have equipment and enforce wiretapping warrants.”

Meanwhile, due to worries about the leakage of personal information during raids, the prosecution is reportedly considering whether or not to confiscate

data related to crimes after classifying communications records with a third party attending.

Telegram for Cyber Asylum Seekers

Meanwhile, German-based messaging app Telegram, which has emerged as a cyber asylum for Koreans, launched an official Korean app to target the Korean market.

After recruiting English-Korean translators on Oct. 2, Telegram posted a FAQ page in Korean, announcing its entry into the Korean market with the release of its official Korean app on Oct. 7.

Telegram's rapid response seems to be part of its strategy for retaining Korean users as loyal customers, the number of which has been rapidly increasing since the controversy surrounding government censorship of the nation's top messaging app KakaoTalk. In other words, the move is aimed at enjoying increased demand in Korea based on its huge popularity with cyber asylum seekers.

Previously, there was only an unofficial open-source version used by Koreans, and there were not many active users. These factors can be interpreted as the other two reasons for the earlier release of its official Korean version.

"More than 1.5 million Koreans were registered as users last week. Currently, 50 million people around the globe are using Telegram each month. Korea is the country that leads this growth," said Markus Ra from Telegram’s support team in an E-mail interview with Yonhap News Agency on Oct. 7.

In the past, the local IT industry kept a close eye on the cyber asylum phenomenon, but believed that this phenomenon was probably temporary. However, the industry is alerted by the fact that the number of downloads for the German messaging app keeps snowballing. The launch of the official Korean service has also put the industry on edge.

There is growing concern about the reoccurrence of the phenomenon where a large number of local netizens migrated from local web portals to Google's G-mail after the PD Notebook incident in 2009.

Year-round online monitoring is targeted at not only KakaoTalk, but also other local Internet service providers. For example, Naver's email service NaverMail and SK Communication's messaging app NateOn could be censored at any time.

Nevertheless, Kakao, the company behind KakaoTalk, is especially nervous about the censorship. Following suspicions over the government's confiscation of Labor Party Deputy Leader Jung Jin-woo's KakaoTalk chats, the management of Daum Kakao did not clearly express its position about controversy over government surveillance at a recent press event. As a result, KakaoTalk was singled out as the epicenter of cyber censorship.

Daum Kakao became embroiled in the controversy surrounding government surveillance immediately after its merger. The company is said to be in crisis managementmode at the moment. In particular, its team in charge of security technology is reportedly working to establish security measures that can reduce the controversy surrounding government surveillance.

The Twitter page of Doosan Group.

Celebrity Cyber Asylum

Doosan Group Chairman Park Yong-maan, who is using social networking services (SNSs) for communication, closed his KakaoTalk account and moved to Telegram.

According to business circles on Oct. 15, the growing controversy surrounding government surveillance made Chairman Park leave a message on his KakaoTalk account on Oct. 9, saying, “I will leave KakaoTalk. So, contact me via Telegram.”

Park is famous for his heavy use of SNSs like Facebook or Twitter to communicate with his acquaintances. His withdrawal from the nation's top mobile messenger app is believed to be caused by the controversy over government surveillance.

An industry source said, “Lawmakers are also switching their current messenger apps from KakaoTalk to Telegram,” adding, “I think that the controversy surrounding government surveillance is the reason for the withdrawal from KakaoTalk.”

With the controversy growing, an increasing number of people are using German-based Telegram instead of KakaoTalk. Some refer to this phenomenon as cyber asylum. Korean subscribers to Telegram have already exceeded 2.6 million.

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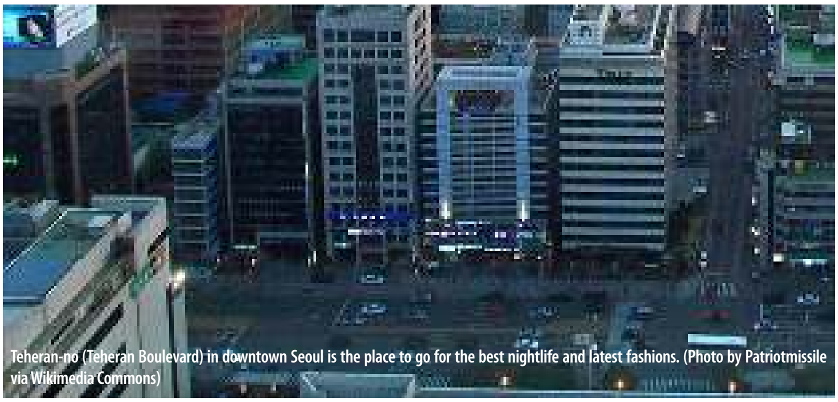
30-50 Club

GDP Per Capita of South Korea to Reach US$30,000 after 2016


Teheran-no (Teheran Boulevard) in downtown Seoul is the place to go for the best nightlife and latest fashions. (Photo by Patriotmissile via Wikimedia Commons)

Korea's entry into the 30-50 club (economies with US$30,000 in GDP per capita and 50 million people) is said to be possible after 2016, due to a strong U.S. dollar.

"Initially, Korea was expected to join the 30-50 club next year. But the nation's entry into the club is likely to be possible only after 2016, considering a rise in national income and the won-dollar rate," said Park Jong-kyu, a senior researcher at the Korea Institute of Finance. His remarks were included in his report on the prospects and meaning of the 30-50 club entry released on Oct. 26.

The report said, "If the exchange rate does not change in 2015, it will be possible for the nation to join the club next year. However, the nation's entry into the club is likely to be postponed, owing to a strong U.S. dollar and devalued won caused by a rise in the interest rates in the U.S. after the second half of 2015."

The report added, "If the nation joins the 30-50 club by achieving US$30,000 in GDP per capita in 2016, it will be faster than other advanced countries, in terms of the period needed to achieve US$300,000 from US$200,000."

On average, it took 10.5 years for countries with more than 10 million people and US$40,000 in GDP per capita as of 2013 to increase their GDP per capita from US$100,000 to US$200,000. And it took another 10.5 years to see the number grow from US$200,000 to US$300,000.

In contrast, it took merely 11 years for Korea to achieve US$100,000 in 1995 to US$200,000 in 2006. If the nation's GDP per capita rises to US$300,000 in 2016, it will be able to cross the US$300,000 mark only 10 years after its initiation.

The report regarded the meaning of the nation's entry into the 30-50 club very highly, despite differing opinions about the joining period.

Park pointed out, "The nation will become the seventh country to join the 30-50 club, following the U.S., Japan, the U.K, Germany, France, and Italy. It will be unprecedented for a country with no prior experience in running an empire." The researcher concluded by saying, "It will be such a great achievement that people should have pride in."

Unbalanced Growth

Though Korea showed top-level global competitiveness in economics sector such as manufacturing and trade, indexes in labor and the social sectors were at a significantly lower level compared to developed countries.

As of last year, South Korea ranked number 1 in cell phone shipments and second in semiconductor and shipbuilding (including the residual quantity of orders). The country ranked fifth globally in the output of automobiles and sixth in crude steel, respectively.

There were 17 South Korean companies on the list of the Global 500 by Fortune, which makes Korea the country with the seventh largest number of companies on the list. In the area of global brand value, Samsung was ranked eighth, which is up by one level from last year, and Hyundai ranked 43rd, which rose by ten steps from last year.

South Korea's economic status can be seen in figures such as the investment amount in research and development ranked sixth globally, eighth in foreign-exchange reserves, first in digital government index, fourth in the number of registered domestic patents, fifth in the number of high-speed Internet users, and third in the number of international conferences held.

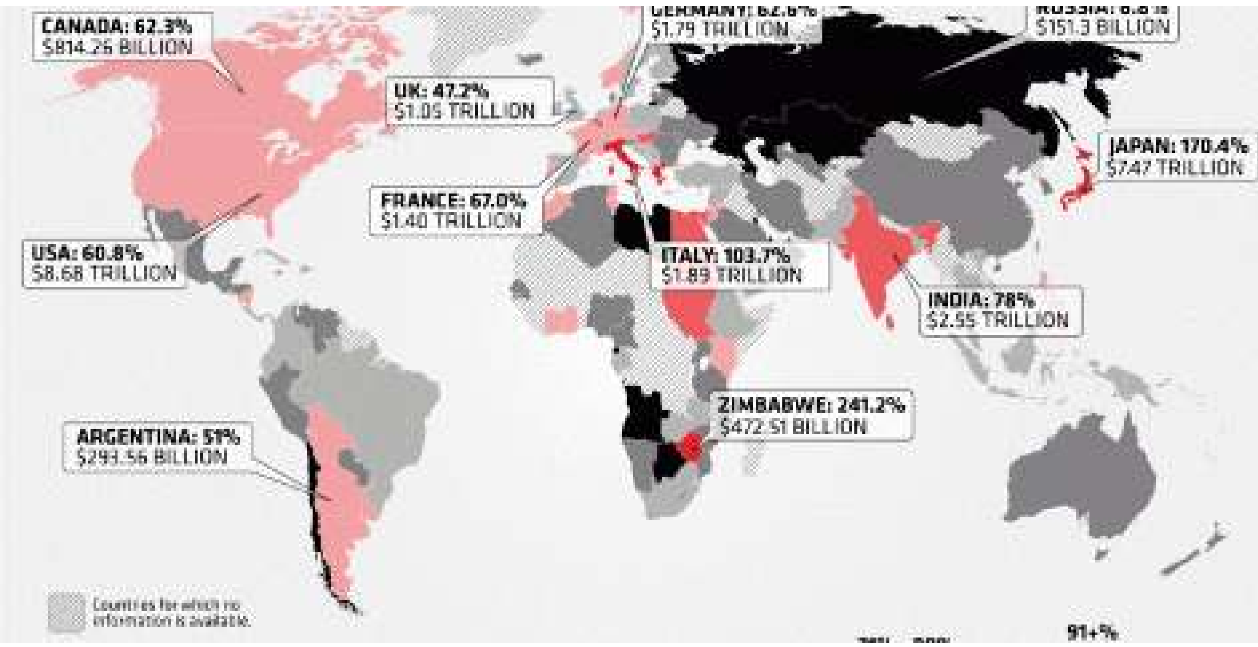
Last year, South Korea ranked seventh in the amount of export, ninth in trade volume, and 13th in trade surplus in the world.

On the contrary, South Korea remained low in the indexes of labor and society. In 2012, the female economic activity rate was 50.2 percent, ranked 25th in the world, and birthrate was 1.23 percent, ranking 168th out of 171 countries.

South Korea ranked 41st in the Quality of Life evaluated by Swiss International Institute for Management Development (IMD), which is down from the last year's rank (34th).

Government Debt

Korean Gov't Debt Exceeds 115 Percent of National GDP



Ruling and opposition party lawmakers constituting the Strategy and Finance Committee of the National Assembly severely criticized the expansionary fiscal and economic policy of Deputy Prime Minister Choi Kyung-hwan during the parliamentary inspection of the Ministry of Strategy and Finance on Oct. 16.

"The sum of the sovereign, public, and pension debts reached 1,641 trillion won as of the end of last year, which was equivalent to 114.9 percent of the national GDP," said ruling Saenuri Party lawmaker Lee Han-koo, adding, "This is greatly over the WEF recommendation of 90 percent, and I am dubious about whether the government can endure the current fiscal deficit and debt surge, with the aging of society speeding up, and large monies expected to be taken for inter-Korean reunification."

The government has claimed that the size of the sovereign debt is not problematic because it is lower than the OECD average. However, according to lawmaker's data, the total liabilities amounted to 94 percent of the GDP, 1.252 quadrillion won (US$1.176 trillion) to be specific, in as early as late 2011. Besides, the household liabilities reached a new high of 1.242 quadrillion won (US$1.166 trillion) in late June this year, and the ratio of household debt to nominal GDP has gone up from 82.4 percent to 83.8 percent, and then to 85.3 percent between 2011 and 2013, to remain much higher than the recommendation of the WEF at 75 percent.

"The OECD, S&P, former Bank of Korea governor Lee Sung-tae, and many more are warning about the pace at which household liabilities increase," the lawmaker pointed out, continuing, "Only the Korean government, the current central bank governor and Deputy Prime Minister Choi Kyung-hwan are not worried about the debt situation."

Democratic United Party lawmaker Hong Jong-hak said in the meantime, "Putting pressure on the central bank to cut the key rate is to mobilize the Bank of Korea for the government's economic stimulation policy, which harms the independence of the central bank." The bank had lowered the benchmark rate on the previous day.

"It seems that the loan-to-value and debt-to-income ratios were eased too rapidly," ruling Saenuri Party lawmaker Park Myung-jae criticized, adding, "When mortgage loans are used for everyday living and business, the default rate will go up and household debts will swell." BK

Losing Businesses

State-owned Energy Companies to Sell Overseas Assets Worth 6.3 Trillion Won

Democratic United Party lawmaker Baek Jae-hyun, who is a member of the Trade, Industry and Energy Committee of the National Assembly, said on Oct. 26 that six state-run energy companies are planning to dispose of overseas assets worth 6.2723 trillion won (US$5.9591 billion) combined by 2017.

The Korea National Oil Corporation (KNOC) is going to sell assets worth 2.7003 trillion won (US$2.5650 billion), and the amount is 1.4294 trillion won (US$1.3580 billion) for the Korea Electric Power Corporation (KEPCO), 1.4 trillion won (US$1.3 billion) for the Korea Resources Corporation, 588 billion won (US$559 million) for the Korea Gas Corporation (KOGAS), 143.5 billion won (US$136.4 million) for the Korea Hydro and Nuclear Power Corporation (KHNP) and 11.1 billion won (US$10.5 million) for the Korea Coal Corporation.

KNOC and KOGAS have not disclosed their specific disposal plans. KEPCO is going to sell its shares in bituminous coal and uranium development projects, and the KHNP will withdraw from the uranium development project it has been engaged in.

"Recently, the KNOC has sold Harvest's North Atlantic Refining Limited subsidiary in Canada for just 90 billion won [US$85.5 million], which was less than one-tenth of the purchase price," the lawmaker pointed out, adding, "The companies will have to be prudent enough to not repeat the mistake."

Investments in Unprofitable Overseas Projects Continued

Meanwhile, the Korea National Oil Corporation (KNOC) and the Korea Gas Corporation (KOGAS), Korea's state-run energy development companies, are planning to invest 4.28 trillion won (US$4.06 billion) in overseas natural resources development projects determined to be unprofitable. No less than 26 trillion won (US$24.7 billion) has already been poured into these projects by the former Lee Myung-bak administration, and the decision to engage in additional investment is stirring up controversy.

According to Democratic United Party (DUP) lawmaker Jun Sun-ok, a member of the Trade, Industry and Energy Committee of the National Assembly, the two companies are going to invest 4.2856 trillion won (US$4.0728 billion) in 21 such projects until 2018.

According to her data, KOGAS is investing 11 billion won (US$10.4 million) in CNG filling station construction and storage cylinder manufacturing projects in Uzbekistan, and a city gas project in Maputo, Mozambique. Also, it is going to spend 8 billion won (US$7.6 million) on the already failed AD7 gas and oil field exploration project in Myanmar, and 180 billion won (US$170 million) on similar projects in Uzunkui, Uzbekistan, and Umiak, Canada. The KNOC will invest 47 billion won (US$44 million) in gas and oil field exploration in West Fergana and Chinabad in Uzbekistan, and the EPE-7 in Columbia.

According to data that the KNOC submitted to DUP lawmaker Choo Mi-ae, the corporation incurred losses of more than 300 billion won (US$285 million) on 10 exploration projects between 2008 and 2012. "Besides, the 450 billion won that KOGAS invested in the Akkas and Mansuriyah regions is unlikely to be recovered due to the ongoing battle between the IS and the Iraqi government forces," she added.

Harvest Scandal

Deputy Prime Minister Denies Responsibility for Takeover of Harvest

Deputy Prime Minister and Minister of Strategy & Finance Choi Kyung-hwan is delivering a speech at the economic ministerial meeting held on July 30.

Deputy Prime Minister and Minister of Strategy and Finance Choi Kyung-hwan said on Oct. 24 that he had received no reports at all from former Korea National Oil Corporation (KNOC) President Kang Young-won with regard to the KNOC's acquisition of Harvest, and thus was not responsible for the matter.

"I met with the president on repeated occasions as the former Minister of Knowledge Economy, but never talked about the acquisition of the Canadian company," he said at the parliamentary inspection of the Ministry of Strategy and Finance. On the preceding day, however, former President Kang testified at the parliamentary inspection of the Ministry of Trade, Industry and Energy that he had briefed the former Knowledge Economy Minister in advance on the takeover of Harvest and North Atlantic Refining Limited (NARL), and the latter had given a green light. "I admit that the KNOC pushed ahead with the acquisition beyond its capability," he apologized.

The KNOC took over Harvest and its subsidiary NARL five years ago. However, the acquisition has incurred losses of over 100 billion won each year, and the corporation recently decided to sell NARL at a price of 90 billion won (US$85 million). NARL had been purchased at a cost of 1 trillion won (US$950 million).

"It is a stretch of authority for a minister to try to allow or prohibit a project of a state-run enterprise, and overseas natural resources development, which takes time, should be seen with a long-term perspective," the Deputy Prime Minister explained at the inspection, continuing, "I might have some moral responsibility as a former minister for the failure of the development project led by the government, but it is wrong to hold an individual accountable for the failure." An opposition party lawmaker refuted this statement by saying that he was the one who coordinated the takeover. The Deputy Prime Minister responded by saying, "At that time, countries around the world were scrambling for energy sources with the international oil price estimated to reach US$200 or something, and what could I do with the Korean government trying not to fall behind?"

"Power-related Corruption Scandal"

He also mentioned that what former KNOC President Kang said on the previous day was not the way a minister grants his or her approval and, in addition, such talks had never happened between them. "The KNOC Act stipulated no specific details as to the corporation's acquisition of an oil refining company, and I thought I had to seek advice from the Ministry of Knowledge Economy. The minister said that I can decide on the progress after some thorough review," the former president said on Oct. 23. "The approval of any national project is to be made in writing, not by word of mouth," the Deputy Prime Minister responded the next day.

In the meantime, it has been pointed out that the former Lee Myung-bak administration's diplomatic activities for natural resources procurement were influence peddling and corruption rather than the lack of determination on profitability and project sustainability. "Merrill Lynch ranked low among the 10 candidates at the primary quantitative index evaluation for advisor selection, but obtained the highest score in non-quantitative assessment, where subjective opinions of the examiners are allowed, to clear the first stage with the highest ranking," Democratic United Party lawmaker Bu Jwa-hyun explained. He also pointed out, "Merrill Lynch's Seoul branch head Kim Young-chan is the son of then-Chungwadae Secretary Kim Baek-jun, who was a close aide to former President Lee Myung-bak."

"The acquisition of Harvest is clearly a corruption case committed by the previous government," National Assembly of Trade, Industry and Energy Committee chair Kim Dong-chul criticized on Oct. 23. "With former president Kang having refused to be subject to the Board of Audit and Inspection investigation, we need to have the prosecution look into this case so that he is brought to the court," he asked the committee members. BK

Foreign Investor Hearing

Foreign Investment Companies Express Complaints during Meeting with Prime Minister

European Chamber of Commerce in Korea (ECCK) Chairman and MAN Truck & Bus Korea President Thilo Halter requested that the Korean government's plan to impose taxes on corporate cash reserves be reexamined.

He joined the Oct. 20 discussion session for non-Korean companies in Korea hosted by Prime Minister Jung Hong-won as a representative of foreign investors and entrepreneurs.

"The introduction of the new taxation system is highly likely to pose a greater burden on companies than before, and the measure is unlikely to yield the result the government is intending to get," he mentioned there, adding, "Once the taxation scheme goes into effect, companies may increase dividends for foreign shareholders in order to avoid the 10 percent additional tax, and this could result in national wealth drain. This is why I ask for an exemption of the application of the scheme."

Vice Minister of Strategy & Finance Ju Hyung-hwan responded by saying that it was difficult to accept his request. "We need to prevent reverse discrimination against Korean companies. We made no exception during the implementation of a similar tax between 1991 and 2002, and we have not a few cases, including the U.S., in which corporate cash reserves are subject to taxation," he explained, continuing, "In addition, foreign companies investing in Korea tend to have a high payout ratio, and thus would rarely be affected by the taxation."

The Prime Minister, in the meantime, stressed that foreign direct investment (FDI) is showing a constant increase nowadays to exceed US$14.8 billion this year, and set a new third-quarter high with a year-on-year growth of 37.9 percent. Foreign investment companies accounted for 20 percent and 6 percent of Korea's total exports and employment, respectively. "In particular, E.U. member countries increased their investment by 84.1 percent from the previous year to reach US$5.93 billion, which is higher than any of those by China, the United States and Japan," he emphasized.

"Although the Supreme Court delivered its ruling on the ordinary wage late last year, the scope of the ordinary wage is still vague in the Labor Standards Act. Thus the Korean government needs to come up with some legislative measures," Mr. Halter pointed out. Joris Dierckx, general manager of BNP Paribas Korea, asked the Korean government to have a more flexible approach concerning the overseas transfer of financial information systems. BK

젊 은 청 년 에 게
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열두번째이야기

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하지만 누구나 창의적이라는 말을 듣진 않습니다

실패에 대한 두려움으로
새로운 시도를 망설이기 때문이죠

창의적인 사람은
아이디어만 있는 사람이 아니라
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도전하는 사람입니다

사람이 미래다 DOOSAN


라이트형제의 첫 비행 장소

Shared Interests, History

Germany Looks Forward to Increased High-tech Cooperation with Korea

On the occasion of their National Day on Oct. 3, BusinessKorea met with Mr. Rolf Mafael, Germany's ambassador to Korea. BusinessKorea asked the ambassador about his country's holiday, the growing relationship between the countries' cities and research institutes, and touched on ways to bring the countries even closer together. The following are excerpts from the interview.


Rolf Mafael, Germany's ambassador to Korea

Please tell us the significance of Germany's National Day on Oct. 3.

October 3rd became the National Day of Germany in 1990, when East Germany and West Germany reunified. German unification went through three stages. The first stage took place on November 9, 1989, when the Berlin Wall came down. This day was a milestone on the way to freedom for East Germany. The second stage took place in the spring of 1990, when free elections were held and international negotiations led to the signing of the treaty that finally settled the status and borders of Germany. In a third stage, the two Germanys were unified as one on October 3, 1990.

How does Germany celebrate its National Day?

Every year, one of our federal states is selected to host the National Day ceremony. In 2014, Lower Saxony and its capital Hanover were chosen as hosts. This day is celebrated each year with a ceremonial act and a citizens' festival with the federal council presiding over the federal event.

The Mayor of Leipzig, Germany made an official visit to Gwangju City on October 3rd. Please tell us the details about the cooperation between the two cities.

An MOU between Leipzig and Gwangju was signed a couple of years ago. Step by step, the two cities are now putting this agreement into effect. Leipzig and Gwangju have many things in common. Both cities have a history of revolutionary or democratic movements. And both cities are cities of art. In Leipzig, Johann Sebastian Bach was born. And Gwangju is the art capital of Korea. In that sense, there is a good potential for cooperation in the arts and music between these two cities. And in March of this year, the German government opened the Goethe Center in Gwangju at Jeonnam National University. The mayors, Burkhard Jung of Leipzig and Jang Hyun Yoon of Gwangju, also discussed further cooperation in the medical field.

We are very happy that more and more German cities are showing interest in Korea. Dresden and Daejeon have recently agreed to cooperate in engineering, and there is a port partnership between Hamburg and Busan. Also, the two capitals, Berlin and Seoul, are organizing cultural exchanges as well.

Please tell us what was discussed and agreed at the summit between Korean President Park Geun-hye and President Joachim Wilhelm Gauck at Bellevue Palace on last March 26.

President Gauck was born in East Germany. One of his strengths is his experience in German unification, particularly the experience of someone who has been a part of it from the East German perspective. As a person who has gone through this experience, he is well aware of how aggressively the communist regime worked. Therefore, he had strong opinions on how it should change. In that sense, he has much to contribute to the present discussion in Korea.

Could you tell us of your point of view on what industrial sectors would be most promising for Korean companies to invest in Germany?

Economic ties between Korea and

Germany have grown constantly over the last 10 years. If you compare the data from both 2002 and 2012, you will see that trade has increased more than twofold, from US$10 billion to US$25 billion. German companies have invested US$10 billion in Korea, and Korean companies around US$4 billion in Germany.

The key area of cooperation is the automobile industry, a sector in which both countries are very strong. Electrical engineering, machine manufacturing, and ICT are also fields of cooperation.

In both countries, wages are relatively high, which is a challenge for labor intensive production or industry. Therefore, we see a shift to more intellectually-driven industries. The focus of our economic cooperation is on high-tech areas. In these areas, both of us are strong, and we have complementary competences. Cooperation in these sectors will be mutually beneficial and help both of us to remain strong and competitive in the globalized market.

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If we look at the four key areas of our cooperation and also the petrochemical industry, it becomes obvious: The key to a successful future is research and development. Here we need to strengthen and broaden our cooperation. One area we can work on, for example, is e-mobility. Korea is a successful manufacturer of batteries and Germany is one of the top countries in mechanics.

A Korean company has recently entered the German solar energy market. By joining forces with German companies, which are technology leaders in renewable energy, Korean businesses can gain a lot. And there are more sectors to explore, e.g. robotics, semiconductors, biotechnology, and nanotechnology.

Many German companies are rated among the top of the industry in Korea. How do you think German companies achieved this?

Indeed, German products are highly appreciated by Korean consumers. They portray the image of high quality and state-of-the-art technology. This is certainly one reason for the success of e.g. the German automobile companies in Korea.

But German car manufacturers are not only selling cars in Korea, but they are also purchasing auto parts from Korean suppliers. This is a very proactive strategy by the German industry, encompassing the country it is profiting from by not only selling finished products, but also buying parts at the manufacturing stage, thus benefiting the economy of both countries. This works of course the other way round as well, with

Korean global players like Samsung and Hyundai using parts from German suppliers.

Please introduce your plan to promote mutual understanding between peoples of the two countries via exchanging cultural programs, etc.

There is already quite a presence of German culture in Korea. Many German-based orchestras tour regularly in Korea. Last year, the Berlin Philharmonic Orchestra performed here, and other German-based orchestras such as the Munich Philharmonic Orchestra and the Dresden Philharmonic Orchestra also gave concerts. The new director of the Korean National Ballet, Kang Sue-jin, was previously the head ballerina at Stuttgart Ballet. A strong and central pillar in our non-commercial cultural exchanges is the Goethe Institute, which organizes a multitude of various programs and events all the year round.

Unfortunately, the number of people studying German language in Korea has dropped significantly after the change in the regulation in university entrance. We are working hard to improve this situation. Now about 15 high schools in Korea are being supported by the German government to teach the German language. The Goethe Institute is expanding its language centers throughout Korea. Two years ago, there were just two language institutes in Korea, one in Seoul and another in Daejeon. Now, there are ones in Daegu and Gwangju, and there will be another one in Busan next year. This is a big step forward and a great opportunity for Koreans who want not only to learn German but later go to Germany for further study.

We also promote student exchanges, university exchanges, and science cooperation programs. It is essential to attract young people and to intensify the exchange between researchers. In this context, an international conference on research cooperation was held on Oct. 2. The presidents of five major technical universities came to Korea and met with the presidents of Postech, KAIST, and others.

One project I feel strongly about and would like to strengthen are high school exchange programs. In my opinion, this is very important, since early experience in another country often determines our future decisions. BK

The Brandenburger Gate, Landmark of Germany.

New Economic Ally

Korea-China FTA Opening New Chapter of Bilateral Economic Ties

President Park Geun-hye and President Xi Jinping announced the de facto conclusion of the Korea-China FTA in Beijing at their summit talks on Nov. 10, about 30 months from the start of the negotiations to that end.

"Minister of Trade, Industry and Energy Yoon Sang-jik and Minister of Commerce Gao Hucheng signed the agreed minutes for the Korea-China FTA in the presence of both Presidents," said Presidential Senior Economic Secretary Ahn Jong-beom, adding, "The Presidents told their staff to wrap up the specific matters before the end of this year."

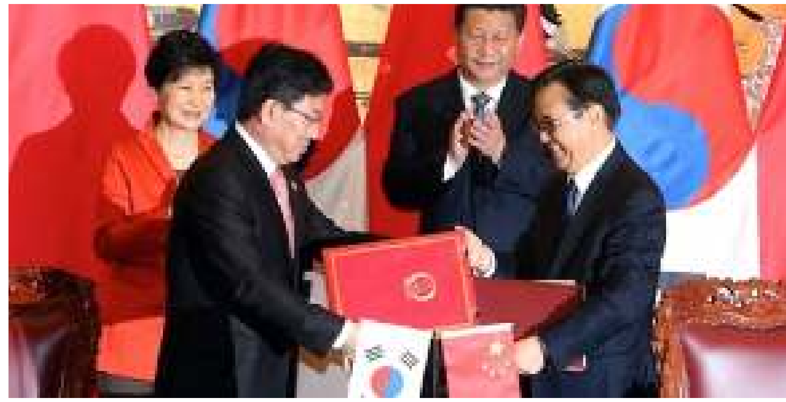
Under the circumstances, both countries are going to work with each other for legal review and modification of the details before the provisional signing at this year's end and official conclusion early next year. Then, the free trade deal takes effect through the National Assembly's ratification agreement. The agreed minutes, which is a sort of memorandum of understanding, constitutes a declaration of the conclusion prior to official documentation.

Korea has already signed FTAs with the United States and the European Union. Its FTA with China signifies that Korea's economic territory expands to 73.2 percent of the global GDP, which is the third-highest in the world. The Korea-China FTA is the 13th free trade deal for Korea. It has signed FTAs with 11 out of the 14 largest economic powerhouses with the exception of Japan, Brazil, and Russia. The Korean government is expecting that the newly-signed FTA will allow it to take a pivotal role in Asia-Pacific economic integration. "It is predicted that the focus of Korea's exports to China, which is the number one trade partner and export destination for Korea, will be shifting from capital and intermediary goods to consumer goods, services, etc.," Secretary Ahn continued.

The two countries concluded the agreement in 22 sectors, including commodity, services, investment, finance, and telecoms. China included finance, communications, and e-commerce in its FTA for the first time.

US$5.44 billion in tariffs a year to be Saved

When it comes to commodities, they agreed to free trade on at least 90 percent of items. Specifically, China is planning to eliminate its tariffs on 91 percent of trade items and 85 percent of imports (US$137.1 billion) while Korea is doing so on 92 percent of items and 91 percent of imports (US$73.6



Minister of Trade, Industry and Energy Yoon Sang-jik (left) and Mi Commerce Gao Hucheng (right) shake hands after signing the agreed for the Korea-China FTA with Park Geun-hye and Xi Jinping in the Nov. 10.

billion) within 20 years. Forty-four percent and 52 percent of imports are subject to immediate tariff eliminations for China and Korea, respectively. Automobiles are excluded from concessions and the tariffs on LCDs will be eliminated within 10 years.

The primary industry is subject to a 70 percent opening in terms of the number of items and 40 percent in imports. The Korean government succeeded in excluding rice from the agenda. Also, both countries agreed on customs clearance within 48 hours, certificate of origin exemption for US$700 or less, preferential tariff applications within one year from imports in the event of the absence of origin certificates, opening of the Chinese entertainment market for greater Hallyu investment, designation of organizations to assist Korean companies in China, and introduction of dispute settlement procedures for non-tariff measures.

"The Korea-China FTA will allow Korean companies to save US$5.44 billion in tariffs a year," the Secretary explained, adding, "Also, its impact on our primary industry will be limited to a minimum."

The Korea-China FTA concluded on Nov. 10 is highly meaningful not only as an economic breakthrough but also as diplomatic momentum on which the two countries can continue cooperating with each other to resolve sensitive issues such as North Korea's nuclear development. Also, the declaration of the conclusion of the deal after 30 months of effort is expected to result in greater exchange between Korea and China in the fields of economy, diplomacy, culture, and society.

Given that North Korea's economic dependence on China is on the rise nowadays, it can be said that the agreement will serve the same purpose as President Park Geun-hye's Eurasia Initiative for breaking the isolation of the North based on its ties with China.

Economic Cooperation, Exchange Brought to Another Level

"The recent announcement implies that the strength and density of the economic partnership between Korea and China are higher than ever before," said the Presidential Office of Korea, adding, "During their summit talks, the two Presidents agreed on mutual development based on their very close strategic partnership."

"Korea is one of the best neighbors and partners for China, and I would like to advance bilateral relations through dedicated and ongoing efforts," Chinese President Xi Jinping also remarked, continuing, "The China-Korea FTA, which seeks a perfect balance between the national interests of both sides, is an important milestone for the Asia-Pacific region as a whole, as well as the economic development of both China and Korea."

China is the largest trade partner and export destination for Korea, and Korea is the third-largest trade partner for China. This means that their cultural and human exchange will be boosted in the future along with economic cooperation. Korea's conclusion of the free trade deal with a market 1.3 billion people large, ahead of other countries like Japan, can be a boon to Korea's economic standing in the Asia-Pacific region and the international community's efforts to deal with the low growth trend. It is expected to accelerate the economic integration in the region, too.

Closer Political, Diplomatic Ties

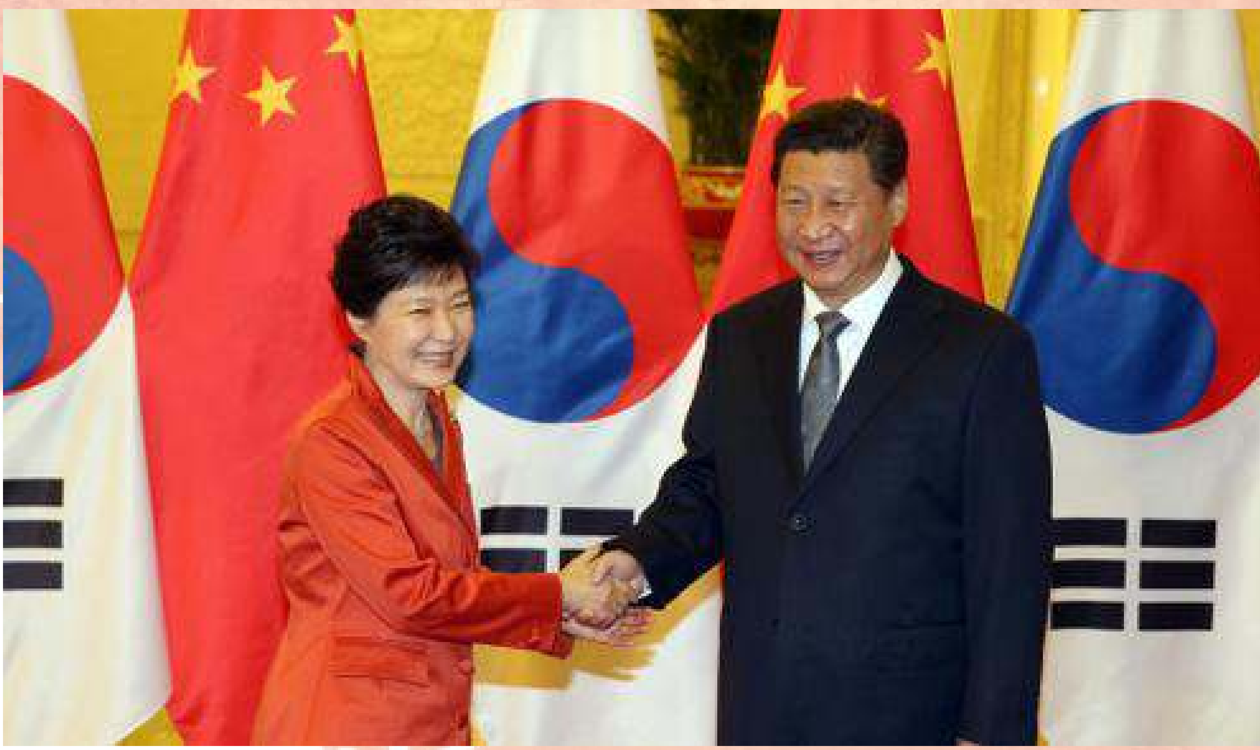
The FTA is predicted to contribute to closer political and diplomatic relations between the two sides as well. On the very day of the conclusion, Chinese President Xi Jinping reassured South Korea that China is against the nuclear development of the North in compliance with UN Security Council resolutions. He also mentioned that he would make more joint efforts with South Korea until Pyongyang gives up on its nuclear ambition by means of resumption of the six-party talks if necessary.

President Park, in response, said that the Korean government would seek various measures such as humanitarian aid, infrastructure assistance, and extensive private exchange in the framework of Korea-China collaboration. President Xi responded by saying that he supports peaceful reunification between the two Koreas based on dialogue.

In the meantime, some experts are pointing out that Korea needs to raise necessary questions as to China's leadership and governance in the Asia Infrastructure Investment Bank (AIIB) by taking the opportunity to take a bigger role and standing in the scheme. Also predicted is that the discussions of the trilateral FTA among Korea, China, and Japan and the Trans-Pacific Partnership led by the U.S. will gain speed through the signing of the Korea-China FTA. BK

Effects of Korea-China FTA

Korea-China FTA Signaling Huge Change in Bilateral Trade Relations



President Park Geun-hye and President Xi Jinping shake hands at the Korea-China FTA signing ceremony in Beijing on Nov. 10.

According to the recently signed Korea-China FTA, China and Korea will eliminate tariffs on 91 percent and 92 percent, respectively, of trade items over the next 20 years. The percentages are a lot higher than those of the KORUS FTA and the Korea-EU FTA. This is because sensitive items such as automobiles and rice have been excluded. Nevertheless, the Korea-China FTA is expected to lead to very positive effects. The Korea Institute for International Economic Policy recently predicted that Korea's real GDP would increase 1.25 percent in five years and 3.04 percent in a decade thanks to the agreement.

China recorded a GDP of US$9.2403 trillion last year, second only to the United States. China is the number one trade partner for Korea. The volume of trade between Korea and China soared from US$100 billion to US$228.8 billion between 2005 and 2013.

More Powerful in Tariff Reduction than KORUS FTA

The Korea-China FTA is particularly meaningful in that it lowers the tariff barrier on industrial products. China is currently maintaining an average import tariff of 9.7 percent, which is higher than the U. S.'s 3.5 percent and the E.U.'s 5.6 percent. However, the tariffs are going to be eliminated or lowered phase by phase in the framework of the agreement.

In addition, the amount of the tariffs to be cut by the Korea-China FTA is much larger. Specifically, the tariff cut is estimated to reach US$5.44 billion a year, while the yearly amounts are limited to US$930 million for the KORUS FTA and US$1.38 billion for the Korea-EU FTA. "The tariffs on our export items worth US$8.7 billion combined are gone immediately after the implementation, and those worth US$45.8 billion disappear in 10 years," a spokesperson for the Ministry of Trade, Industry and Energy explained.

Impact Likely to be Limited in Manufacturing Sector

Still, the FTA is expected to have a limited impact in the domestic manufacturing sector, at best. This is because its main export items such as automobiles and paraxylene are not included in the deal. LCD tariff reduction is slated to be discussed 10 years from now, too. Zero and very low tariff rates have already been set for most items pertaining to the shipbuilding and electronics sectors, and Korean auto makers are already running manufacturing facilities in China. The Hyundai Motor Group produced 1.57 million cars in China last year, but shipped just 50,000 back to Korea. In the long term, however, the exclusion of the auto industry can be a boon to Korea with global leaders like BMW and Mercedes Benz producing their vehicles in China as well, and Chinese carmakers refining their technology at a fast pace.

Auto parts manufacturers are expected to benefit greatly from the Korea-China FTA. Although details have yet to be fixed, they are likely to find their way into not just Korean but also foreign automakers in China. Some experts point out though that the positive effect would be insignificant in that cheap parts could be imported in quantity from China, and quite a few auto parts manufacturers have already been doing business there.

The FTA is no big news for Korea's shipbuilding industry, either. Zero tariffs are in effect in the industry, with the exception of special boats like yachts, along with flags of convenience. Ordering bodies have customarily placed orders via their paper companies located in third countries.

Korea has set no tariffs upon most imported steel products according to a WTO agreement concluded in 2004. In addition, Korean steelmakers' exports to China are unlikely to increase, though China is going to eliminate its tariffs on hot rolled stainless steel sheets, cold rolled steel sheets, and the like within 10 years, because steel products

supplied by Chinese companies are too cheap. What is more likely is an increase in shipments from China to Korea. At present, the unit cost of imports is US$730 per ton for steel products made in China, while the overall average is as high as US$911.

The electronics industry is expected to benefit little from the agreement as well, since most of the home appliances marketed in China are produced there, and the Information Technology Agreement (ITA) has already removed the tariff on computers and semiconductor chips. Nonetheless, some small electronics makers are expected to enjoy the FTA, as China abolishes tariffs on high-end consumer electronics within 10 years. However, it is also predicted that similar products made in China will penetrate the Korean market more aggressively, with the Korean government planning to remove the tariffs on refrigerators, washing machines and similar items during the same period.

In the petrochemical industry, paraxylene, terephthalic acid and ethylene glycol, all of which are Korea's main export items, have been excluded from concessions. China decided to lower the tariffs on ethylene and propylene, but this depends on the rules of origin. The Chinese government is maintaining that only those items in which the added values produced in Korea exceed 60 percent can be regarded as Korea-made products. In this case, petrochemical products manufactured in Korea in which imported petroleum accounts for 50 percent or more of the production costs are not recognized as made in Korea. In the meantime, knitted goods exported from China to Korea are planned to be subject to tariff elimination over a period of 20 years down the road.

Chinese Giants Expected to be More Influential in IT Sector

The information and communications technology (ICT) industry also has nothing to do with the Korea-China FTA. Sixty-three countries, including the United States, Korea, Japan, Singapore, Canada, and Australia, signed the ITA in 1996 for the removal of tariffs on mobile phones, wireless communication devices, and the like. China joined the ITA in 1999.

However, Korea and China included telecoms service in the agenda at this time and inserted a separate chapter for it into the documentation. This is the first time that China did so in its FTAs with other countries, which implies the high importance of telecoms services in the bilateral service trade.

The chapter stipulates such issues as the prohibition of discrimination against Korean and Chinese companies doing business in each others' countries and how to ensure regulation transparency. However, expert consensus is that the Korea-China FTA will accelerate the penetration of Chinese telecoms giants into the Korean market, to result

in sizable threats. “If all types of discrimination are prohibited in the telecoms industries of both countries, more and more Chinese investors will land in the Korean market,” ChungAng University economics professor Lee Han-young remarked.

Such threats include the refinement of Chinese smartphones and gadgets, and the skyrocketing influence of Chinese IT powerhouses such as TenCent and Alibaba. These days, TenCent is increasing its presence in Korea by means of a partnership with Korean mobile game companies. Even many in the game industry see contact with TenCent as a precondition for a jackpot. Alibaba carries great weight in the field of mobile payments. “The conclusion of the free trade deal does not mean the use of Alibaba services hikes overnight in Korea,” said an industry insider, continuing, “Nevertheless, its presence in the fledgling mobile payment market could be what takes others’ opportunities away from the get go.”

One of the FTA’s positive effects for the domestic game and digital contents industries lies in the mitigation of risk. “Many Korean game and content companies have grumbled about the difficulty of predicting Chinese authorities’ regulations, unfair discrimination, abrupt breach of contact, and so on, but the Korea-China FTA will prevent these,” the Ministry of Science, ICT and Future Planning commented. For instance, the deal is expected to allow the service of free mobile messengers like Daum Kakao and Naver Line in China over the Great Chinese Firewall.

Some of those in the know are skeptical about the prediction, though. “Numerous unofficial business barriers are present in industrial sectors of China, even in the open markets,” one of them said, adding, “It will not be easy for Korean IT firms to show some performance in China, even under the FTA, because the telecoms industry is one of the key infrastructure sectors of China, as with all other countries.”

The maximum foreign investment in key telecommunications business operators, which was one of the most sensitive issues during the negotiations, was fixed at 49 percent for Korea and China alike. The share limit regarding value-added common carriers is going to be discussed later.

Entertainment Industry, the Primary Beneficiary

It is entertainment companies that are particularly welcoming the Korea-China FTA, according to which Korean companies can own up to 49 percent of Chinese entertainment firms and more joint production are anticipated in the fields of cinema, TV dramas, and broadcasting. The Korean food and cosmetics manufacturers’ business in China can also be facilitated, as testing and inspection agencies of both countries are planning to work more closely together.

The Korea-China FTA marks China's first official opening of its entertainment market to a country out of the Great China region. Korean entertainment companies are expecting that their business in China will become more predictable, systematic, and better protected by clear guidelines and rules. Also, Korean films are expected to make inroads into more Chinese theaters. The Chinese government has imported 20 to 64 foreign films a year in order to protect its film industry. However, join Korean/Chinese made films are classified into Chinese movies from now on to be free from the screen quota. Similar rules have been set up for broadcasting content, too.

Problems concerning the protection of intellectual property rights, which severely hampered the business of Korean entertainment firms, have been resolved to some degree as well. China extended the period of broadcasting program protection from 20 years to 50 years and decided to recognize the exclusive rights of broadcasting companies, while imposing criminal penalties on those recording films without permission in movie theaters. "Not just copyrights but also neighboring rights are going to be better protected so that Hallyu content can enjoy more opportunities in China," the government explained.

Signaling Tectonic Upheaval in Domestic Financial Industry

The Korean government and financial institutions are planning to more than double the ratio of yuan-based trade settlements next year after the conclusion of the Korea-China FTA. The government's long-term plan is to raise the ratio to at least 20 percent. The ratio was just 1.2 percent last year, when Korea recorded a trade value of US$228.8 billion with China.

Under the circumstances, expectations for new business opportunities are on the rise. Korean banks are releasing an increasing number of yuan-based products one after another ahead of the opening of the won-yuan trading market next month. For example, Korea Exchange Bank has launched a yuan-based loan, and Woori Bank and Shinhan Bank have released yuan deposit products. These provide annual interest of at least 3 percent, while most of deposit and savings products are limited to less than 3 percent. According to the Bank of Korea, the combined yuan deposit balance of residents in Korea reached US$21.7 billion as of the end of last month, US$1.35 billion up from a year earlier.

Stock market investors are also positive about the trend as of late. They are expecting that the Korea-China FTA will be an important breakthrough with the stock market drifting sideways due to the weak yen and Korean companies' sluggish business performance.

On Nov. 11, the Korea Composite Stock Price Index (KOSPI)

gained 18.36 points, or 0.95 percent, from the previous session to reach 1,958.23 after the announcement of the signing of the free trade agreement. Automobile, cosmetics and machinery component manufacturers particularly enjoyed the news. Hyundai Motor Company, Kia Motors, and Hyundai Mobis gained 2.78 percent, 1.87 percent, and 0.42 percent, respectively.

Financial companies are anticipating that their direct business in the Chinese market will be allowed depending on the result of the following negotiations. The talks covering the financial sector were recently wrapped up, and additional specifics about the degree of opening of the sector are scheduled to be made available in December.

According to the Financial Services Commission, the groundwork for such business has already been laid through the previous negotiations. "The fact that the financial sector was put on the table as a separate chapter means that we can look forward to some positive results," it said, adding, "Also meaningful is the agreement on the clause on the local financial market transparency and the establishment of a new organization to help Korean financial companies' troubleshooting their business in China." Even if direct business is not allowed at this time, the transparency of the Chinese financial industry can be improved, and the extent to which the market is opened can be increased so that Korean commercial banks can better penetrate the market.

"We are planning to start sales activities in China next month after the local authorities' final permission," Hana Financial Group Chairman Kim Jeong-tae explained on Nov. 11, continuing, "We are going to completely localize the sales channels, which will be headed by the Chinese." At present, Hana Bank and the Korea Exchange Bank are running 14 and 15 chain and branch banks in China.

Lowered Non-tariff Barriers to Result in Boost in Investment

In the capital industry, the Korea-China FTA is expected to result in China's increasing investment in Korea. Last year, China's total overseas investment reached US$90.2 billion, but its investment in Korea was limited to 0.53 percent of it. However, it is forecast that China will boost its strategic investment in Korea through the FTA, particularly in the materials and components, medical and biotech, cultural content, fashion and cosmetics, and food industries, so as to imitate Korea's advanced technologies in these sectors and make better use of the Hallyu phenomenon in China. "It is likely that Chinese funds' investment in Korea will be boosted along with third countries' investment in Korea targeting the Chinese market," said Park Cheon-il, director at the Trade Research Division of the Institute for International Trade.

Choinomics

Korea Development Institute Opposes Choinomics

Deputy Prime Minister and Minister of Strategy and Finance Choi Kyung-hwan.

The Korea Development Institute (KDI) recommended the Ministry of Strategy and Finance to reduce financial expenses over time, maintaining that the government's supplementary budget last year deteriorated fiscal sustainability while resulting in limited short-term economic growth. A local economic daily reported the news on Nov. 7, adding that the advice contradicts Deputy Prime Minister and Minister of Strategy and Finance Choi Kyung-hwan's expansionary fiscal policy for economic revival, dubbed Choinomics.

"It seems that the supplementary budget of last year was appropriate in timing and scale in view of past experience, but it did compromise the government's fiscal health," the KDI said in its report commissioned by the Ministry. The report also read, "The role of fiscal policy needs to be reduced for the time being in the interest of fiscal sustainability."

The Deputy Prime Minister overturned his predecessor's economic policy immediately after taking office in July. He announced he would invest 41 trillion won (US$37 billion) into economic stimulation, and then fiscal expansion would follow in 2015. Housing market deregulation was at the center of his growth-oriented economic policy. His team relaxed the loan-to-value (LTV) and debt-to-income (DTI) regulations and cut the taxes on lease income while easing various rebuilding restrictions. The policy packages of the influential ruling party figure, versed economist and one of the closest aides to President Park Geun-hye were well-received by market participants. Many anticipated that the Korea Composite Stock Price Index (KOSPI) would reach 2,200 points this year and 2,500 next if Choinomics turned out to be successful.

Their expectations turned out to be short-lived though. The KOSPI dipped below the 2,000 point mark on Oct. 1 and foreign investors are flocking out of the bourse. Although both developed and developing countries are struggling with declining economic indices, the situation is particularly worse in the Korean economy. Korea's stock market and foreign exchange volatility is the highest among those of seven major Asian economies. The depreciation of the Korean currency against the U.S. dollar outpaces those of the other six, too.

The fiscal expansion plan is not going as scheduled, either. According to the ministry's data, the govern-


Ruling party lawmaker Lee Han-ku.


Former Presidential Secretary for Economy Kim Jong-in.


Institute for the Future of State Director Kim Kwang-du.

ment was supposed to spend 199.3263 trillion won (US$182.4314 billion) of budget and funds for the first nine months of this year, but actual spending was limited to 188.8935 trillion won (US$173.5742 billion). "This is because the government, pressed by the urgency of economic stimulation, was in a hurry to announce the plan without sufficient specific details, and its arms are now in confusion over where to spend the budget," an economist mentioned.

Besides, the jeonse, or housing deposit, loan balance reached a new high this year with the new loans taken out between January and August reaching 10.4 trillion won (US$9.5 billion). This means that the Deputy Prime Minister's prediction that housing market deregulation would lead to an increase in home prices and then to some stability in jeonse prices has missed the mark. In fact, no less than 11 civic groups have criticized him since his appointment as the Deputy Prime Minister that his DTI and LTV-based housing market deregulation plan for economic revival is anachronistic.

Last month, the Bank of Korea adjusted its GDP growth forecast for this year to 3.5 percent, 0.3 percent percentage points down from its estimate released in July. In addition, it lowered the forecast for 2015 from 4.0 percent to 3.9 percent.

Economic Advisors to President Park Geun-hye Join Critics

Under the circumstances, an increasing number of experts are becoming pessimistic about Choinomics. Some of them are even saying that his policy is just another version of Abenomics and it will drive Korea to what is similar to Japan's two lost decades.

"The Choinomics, in the end, is just about stimulating the economy with debt," the SDI Institute remarked, continuing, "What we need now is industrial and debt restructuring to provide against the long-term recession Japan went through, although the process is unlikely to yield visible results in the near future."

Economic advisors to President Park Geun-hye are also criticizing Choinomics. Former Presidential Secretary for Economy Kim Jong-in recently said that deflation could linger on, despite the expansionary fiscal policy and interest rate cut, until the emergence of a long-term recession characterized by swelling debt.

"The effect of the stimulation policy is limited at best, yet it could result in a debt trap," said Institute for the Future of State Director Kim Kwang-du, who created the concept of the Creative Economy for the President. He went on to say, "The national debt, including those of state-run enterprises, the national pension fund, and military pensions, has already reached the level of advanced economies, and the pace of debt increase is faster than theirs. But, the government is too optimistic."

Ruling party lawmaker Lee Han-ku also warned earlier this month that the Deputy Prime Minister's housing policy would exacerbate the problem of household indebtedness, while financial institutions bearing the burden would have to witness their credit rating fall.

With the situation as it is, the Deputy Prime Minister is being increasingly criticized for his failure to deal with fundamental problems, one typical example of which is tax increases. Cigarette prices, residence taxes, and automobile taxes are planned to be hiked but the public is blasting it. Household liabilities are going up with the tax revenue estimated to be decreased by over 10 trillion won (US$9.2 billion) this year. The President's plan for public enterprise reform is losing steam amid controversy over parachute appointments.

In the meantime, Deputy Prime Minister Choi is blaming the political community for the current economic recession. "It is unfair to say that the government is under-prepared for economic restoration, or I am not capable of doing so," he said at the parliamentary inspection last month, adding, "Rather, I hope to see the National Assembly pass relevant laws so that the economy can be resuscitated." Before taking office, he was a three-time lawmaker and served as the floor leader of the ruling party. BK

The public subscriptions prior to the initial public offering of Samsung SDS that finished on Nov. 6 attracted 15.5 trillion won (US$14.2 billion) from individual investors with a competition of 134.9:1, as well as approximately 450 trillion won (US$411 billion) from institutional investors. Such a smash hit, however, shows that investors are having difficulty finding reliable investment destinations these days.

The Korean stock market, which showed some signs of a boom during this past summer on expectations of economic revitalization after the inauguration of Deputy Prime Minister and Minister of Strategy and Finance Choi Kyung-hwan, has stagnated again since mid-October. The key rate has been successively cut, major companies such as Samsung Electronics and the Hyundai Motor Group have released negative earnings records, and the depreciation of the Japanese yen has dragged down the index.

Under the circumstances, the money market fund (MMF) balance, which is a typical example of short-term floating funds, exceeded 100 trillion won (US$91.4 billion) for the first time in 62 months. As of Nov. 4, the amount totaled 100.9689 trillion won (US$92.27548 billion), the highest level since August 2009. The total short-term floating funds including cash, demand deposits, savings deposits, and cash management accounts (CMAs) is said to have broken the 750 trillion won (US$685 billion) mark to set a new high, too. "Investors are focusing only on safe assets, as the termination of quantitative easing by the Fed is poised to affect the Korean economy and stock market alike," the Korea Financial Investment Association explained, adding, "Net inflow into the MMF amounted for 10 trillion won [US$9.2 billion] in October alone."

According to a recent survey, those with at least 1 billion won (US$914,240) in financial assets have 47.9 percent of their assets in the form of cash and savings. The percentages were 13.5 percent for stocks and 11.5 percent for fund products.

The floating funds are flowing to equity-linked securities (ELS) and those providing dividends. This year, the total ELS issue topped 50 trillion won (US$45.8 billion) for the first time in history. According to the Korea Securities Depository, the ELS issue increased by almost 10 trillion won (US$9.1 billion) from a year earlier to 53.6101 trillion won (US$49.0800 billion) as of Nov. 5. It amounted to close to 7 trillion won (US$6.4 billion) in October this year alone. The dividend funds are swelling as well. No less than 2.5161 trillion won (US$2.3035 billion) flowed this year, whereas equity funds lost 3.4771 trillion won (US$3.1789 billion) during the period.

"The recent trend reflects that investors are failing to find attractive investment destinations," said Samsung Securities analyst Kim Hong-bae, continuing, "They are just staying for a moment in the low-risk low-yield products. The popularity of ELS and dividend funds as of late has little to do with speculation." A local private banker echoed the sentiment by saying, "The concentration of floating funds on such products is unlikely to result in stock market revitalization. Investors now seem to be waiting until any positive stock price, exchange rate or macroeconomic sign comes out." BK

Flood of Yuan

Foreign Direct Investment Reaches Historical High

In spite of the sluggish economic recovery inside and outside of Korea, foreign direct investment (FDI) is surging into Korea. While investment from Japan has shrunk due to the depreciation of the Japanese yen and the worsened relationship between Korea and Japan, Chinese funds are flooding in.

The Ministry of Trade, Industry and Energy announced on Oct. 5 that the FDI amount registered from January to September this year was US$14.82 billion, a 37.9 percent increase from the same period last year. This is even greater than the total FDI amount registered throughout the entire year last year, and the historical highest based on the figures from January to September.

The actual amount of money invested (funds received) during the same period was US$9.77 billion, showing a remarkable growth of 50.1 percent. This is the historical highest as well, almost reaching US$9.8 billion of funds received all last year.

On the basis of amounts registered, investment from China surged 230.4 percent to US$1.03 billion from January to September. Investment from Chinese region including Taiwan and Hong Kong also jumped 89.8 percent to US$3.01 billion.

China is actively engaged in the construction of integrated resorts and real estate development in Korea. Chinese interests include not only tourism and leisure, but now also cultural content and food.

Investment from the European Union (EU) increased 84.1 percent to US$5.93 billion. Investment from the U.S. also increased 6.4 percent to US$2.86 billion. Yet, investment from Japan decreased 16.6 percent to US$1.64 billion.

By industry, foreign investment in the manufacturing industry increased 101.4 percent to US$6.07 billion. Foreign investment in the service industry grew 11.4 percent to US$8.6 billion as well.

By investment pattern, M&As increased 91.7 percent to US$7.23 billion. Green field type investment through which factories or business locations are built increased 8.9 percent to US$7.59 billion.

In particular, China, which has become one of the three largest investors in the world, is increasing its investment in Korea at a rapid pace.

According to global investment market reports, China ranked third in the world in terms of investment amount last year. The amount increased from US$88 billion to US$101 billion between 2012 and 2013, whereas that of the United States, which topped the list last year, decreased from US$367 billion to US$338 billion during the same period. The United Nations

Conference on Trade and Development (UNCTAD) recently predicted that China's overseas direct investment (ODI) would exceed foreign direct investment (FDI) in China within two years.

At present, China's investment in Korea is just 0.5 percent of its total investments. However, the investment guarantee pact between Korea, China, and Japan that went into effect in May this year and the Korea-China FTA to be signed in the near future are expected to cause the amount to soar. China's investment in Korea during the first half of this year, in fact, reached US$780 million to already surpass the yearly total of US$480 million for 2013. The establishment of an RMB clearing bank and other policy changes are likely to bolster the trend as well.

Nowadays, China is decreasing its investment in Europe while increasing those in Asia, Africa and Latin America. Its investment in Europe dropped by 15.4 percent to US$5.95 billion between 2012 and 2013, but those in Latin America, Oceania, Africa, and Asia went up by 132.7 percent, 51.6 percent, 33.9 percent, and 16.7 percent, respectively. At the same time, private-sector companies rather than state-run enterprises are making inroads into more and more countries. For instance, TenCent invested US$500 million into CJ Games in March this year, and Alibaba is planning to enter the entertainment, game, and e-commerce sectors of Korea.

"China's investment in Korea revolved around the real estate market until the recent past, but the focus is shifting toward the culture and fashion industries these days," a KOTRA representative explained, adding, "Some Chinese financial companies expressed their desire to acquire Korean fashion companies and digital content providers, and co-produce movies during the IR sessions in Beijing and Shanghai in August." BK

Good News about Abenomics

Abenomics' Failure Will Let Korea Beat Japan in Per-capita GDP by 2020

Shinzo Abe, prime minister of Japan, discusses his economic policies in a speech in London, June 2013. (Photo by Chatham House via Wikimedia Commons)

The Korea Center for International Finance (KCIF) provisionally condemned Japanese Prime Minister Shinzo Abe's economic policy as a failure, with concerns over the Japanese economy on the rise. "Signs of side effects of Abenomics are appearing these days, although we have to wait and see when it comes to economic stimulation," the KCIF said on October 20, adding, "We are about to publish a report about the current state of and warnings against Abenomics."\The danger signals mentioned by the center include a decrease in real purchasing power caused by inflation, slow private investment in spite of expansionary fiscal policy and quantitative easing, national income drain for the weak yen, and the collapse of small firms and the service industry.

"The Bank of Japan purchased government bonds in huge quantities to cause the prices to rise and the real purchasing power to drop," it pointed out. The year-on-year inflation rate was negative 0.2 percent in December 2012 during the early stage of the policy package, but topped 1 percent in June 2013. It has remained at over 3 percent since the consumption tax hike on April 1.

The Japanese government's quantitative easing is not working out, either. Japan's real GDP growth rate was 2.3 percent last year, and most of that was led by the government's 15 percent investment expansion. The GDP gap dropped from negative 8 percent or so to negative 0.3 percent between 2009 and last year. "Less GDP gap implies less growth potentials," the KCIF explained, continuing, "The Japanese government's expansionary fiscal spending is not leading to private investment and, besides, what little money is flowing into so-called zombie companies to deteriorate the efficiency of the economy."

Another crisis factor is the weak yen. "The depreciation of the currency is causing the national income to leak abroad while driving service providers and small firms to bankruptcy," it mentioned. According to statistics, a total of 214 Japanese companies went under between January and September this year due to the weak yen, while the number was just 89 for the same period of 2013.

Local economists, in the meantime, are predicting that the Korean economy would be affected by the failure of Abenomics, but could take the opportunity to overtake Japan in the long term. "Though there are a number of variables, Korea will be able to exceed US$40,000 in per-capita GDP by 2020 to surpass Japan by a margin of at least US$318 if it succeeds in economic innovation at an annual growth rate of 4.5 percent for years to come and Japan's growth is limited to 1 percent a year," research analyst Jun Min-kyu at Hankook Investment & Securities commented. BK

IMF Analysis

Korea to be Hit Hardest among Asian Countries by Rising US Interest Rates

The International Monetary Fund (IMF) released an analysis that South Korea will receive the greatest impact among Asian countries after the sudden changes in US monetary policy.

According to the “2015 Asia-Pacific Economy Forecast” released on Oct. 27, if the U.S. economic growth rate drops and interest rate soars in the market as results of the earlier US interest rate rise, South Korean GDP will drop by 0.98 percent for a year from the start of the “shock.”

This means that the growth rate of South Korea would drop to 3 percent if the global financial market gets caught in the shock of the US interest rate rise next year. Currently, the Korean government and the Bank of Korea forecast that next year's Korean economic growth rate will be 40 percent and 3.9 percent each.

IMF reported these predictions at a joint conference with the Korea Institute for International Economic Policy (KIEP) held on Oct. 21.

Romain Duval, director of the Asia-Pacific Region Economy for the KIEP, explained, “Because the capital that flows into the South Korean market is vulnerable to changes from external shock, there could be capital outflow in the financial sector and slowdown of exports to the US in the real economy,” in an interview with Korean news agency.

Meanwhile, it was analyzed that Japan’s economic growth rate will drop by 0.86 percent, the five countries of ASEAN by 0.85 percent, and China by 0.79 percent. India was forecast to see the lowest drop of the growth rate of 0.15 percent, while South Korea would suffer the biggest fall of 0.98 percent.

Duval said, “It is forecast that the US Federal Reserve System will gradually raise interest rates in the market, however, it is quite possible that the shock will happen because of an unexpected monetary policy.”

When the Federal Reserve System hinted for the first time in May last year that a withdrawal of quantitative easing is possible, the U.S.'s long-term interest rate increased by 1 percent (100bp) in a short time. As a result, Emerging economies suffered capital outflow.

However, the IMF said that there won't be a big problem, since South Korea can afford to respond to it appropriately with financial and monetary policies.

Duval added, “In the case of capital outflow, South Korea should adopt a retrenchment policy, while letting the depreciation of the Korean currency go on.” BK

Unbalanced Compensation

Salaries of Korean Bank CEOs Too High

Stacks of South Korean won for delivery to commercial banks at the Bank of Korea's headquarters in Seoul.

Korean banks pay significantly higher annual salaries to their CEOs than American and Japanese banks do, although the former fall behind the latter in every aspect, including size and performance.

For example, Chairman Takamune Okihara of the Mitsubishi UFJ Financial Group, the largest financial institution in Japan, received a total of 121 million yen (US$1.11 million) last year. Mitsubishi UFJ president Nobuyuki Hirano was paid 125 million yen (US$1.14 million) during the same period. Sumitomo Mitsui Financial Group Chairman Masayuki Oku and president Koichi Miyata received 122 million yen (US$111 million) and 128 million yen (US$117 million), respectively. Yasuhiro Sato, head of the Mizuho Financial Group, took 116 million yen (US$1.06 million) in 2013. The amounts are easily eclipsed by the salaries of the CEOs of Korean financial groups.

Hana Financial Group Chairman Kim Jung-tae took 900 million won (US$854,361) in base pay alone last year. But the total amount of his compensation increases to 2.64 billion won (US$2.50 million) when his performance-based stock options are taken into account. "The stock options, though granted last year, are actually paid in 2016 with the business indices for the three previous years taken into consideration," the company explained, adding, "Therefore, the size depends on future business performance and stock price."

In the Shinhan Financial Group, Chairman Han Dong-woo was paid 1.4 billion won (US$1.33 million) in base pay and bonuses and 1.42 billion won (US$1.34 million) in performance-based stock options, while Shinhan Bank President Seo Jin-won received 1.31 billion won (US$1.24 million) in base pay and bonuses and 1.58 billion won (US$1.50 million) in performance-based stock options. The KB Financial Group's former Chairmen Eo Yoon-dae and Lim Young-rok, in the meantime, took 1.35 billion won (US$1.28 million) in base pay and bonuses along with 880 million won (US$759,448) in stock options together.

Last year, the Hana Financial Group recorded total assets of US$28 million and pre-tax net profits of US$1.2 billion. The sizes were US$29.5 million and US$2.5 billion for Shinhan and US$27.7 million, and US$1.7 billion for KB. They were the 84th, 69th and 68th largest financial companies in the world on an equity capital basis. Meanwhile, Mitsubishi UFJ's assets and net profits were US$2.451 trillion and US$14.7 billion in 2013, those of Sumitomo Mitsui were US$1.534 trillion and US$13.5 billion, and that of Mizuho US$1.67 trillion and US$9.4 billion. They took 10th, 17th and 21st places globally.

The CEO salaries of the Korean financial groups were even higher than those paid to the heads of leading American commercial banks. Although Wells Fargo and the Citigroup paid US$7.93 million and US$7.72 million to their CEOs, the Bank of America only gave its CEO US$2.26 million. They were the eighth, sixth, and fourth largest financial companies in the world last year with net profits of US$32.3 billion, US$19.7 billion, and US$16.2 billion.

"I recently met some officials in the Japanese financial authorities, and all of them were astonished to hear about the amount of the salaries," said a local official, continuing, "It is definitely a problem that the heads of the local financial groups take the huge salaries and perks without bearing sufficient responsibility." BK

Money Evaporation

Hyundai Motor, Samsung Group Lose 27 Trillion Won in Market Cap in Q3

The combined aggregate market value of the listed subsidiaries of the 10 major business groups in Korea has dropped by 32.5353 trillion won (US$30.8819 billion) since the beginning of this year. In particular, the decrement reached approximately 20 trillion won (US$18.9 billion) between July and September.

According to financial information provider FnGuide, the 89 companies' market cap fell from 690.9011 trillion won to 658.3658 trillion won (US$654.1313 to 624.5456 billion) between January 1 and September 27.

As of the end of June, the value was 677.9006 trillion won (US$641.8227 billion), 1.88 percent down compared to the first trading session of 2014. However, the rapid drop in the market cap of the Samsung and Hyundai Motor Groups in the third quarter caused the decrement to expand to 4.71 percent.

The Samsung Group's market capitalization dropped by 16.6661 trillion won (US$15.8191 billion) between the end of June and September 27, and the amounts were 10.0294 trillion won (US$9.5222 billion) and 3.1966 trillion won (US$3.0324 billion) for Hyundai Motor and Hyundai Heavy Industries, respectively. In contrast, the SK Group, LG Group, and POSCO increased their values by 4.7829 trillion won (US$4.5283 billion), 2.4689 trillion won (US$2.3440 billion), and 2.1306 trillion won (US$2.0229 billion) each. The increments were 637.8 billion won (US$605.0 million) for Lotte, 387.4 billion won (US$367.7 million) for Hanwha, 120.3 billion won (US$113.9 million) for GS, and 94.4 billion won (US$89.6 million) for Hanjin.

The rapid decline in the Samsung and Hyundai Motor Groups can be attributed to Samsung Electronics and Hyundai Motor Company. The stock prices of both companies plummeted in the third quarter, and the two groups had to lose a total of 27 trillion won (US$25.6 billion) during the three months alone.

Specifically, Samsung Electronics' market cap declined from 202.0946 trillion won (US$191.7130 billion) to 197.823 trillion won (US$187.760 billion) in the first quarter, and then to 194.7297 trillion won (US$184.8335 billion) by the end of June. The current amount is 174.5497 trillion won (US$165.5831 billion). That of Hyundai Motor Company plunged from 50.5534 trillion won (US$47.8629 billion) to 41.1917 trillion won (US$39.1086 billion) in the third quarter.

Meanwhile, SK C&C led a surge in the aggregate market value of the SK Group as a whole. SK C&C, which is the holding company of the group, gained no less than 50.15 percent in market cap in the third quarter.

"Chairman Lee Kun-hee's hospitalization since May and the negative prediction about the electronics manufacturer's operating profits for the second half of 2014 are worsening the situation for Samsung, while the recent land purchase of the Hyundai Motor Group is accelerating its stock price decline," said an industry source, continuing, "However, rumors about merger with SK C&C are having a positive impact on SK's share price." BK

Securities Competitiveness

Korea's Securities Industry Lagging behind Advanced Economies

Yeouido, the district in Seoul with the largest concentration of financial firms.

The domestic financial investment sector is increasingly calling for deregulation and efficient regulations with returns on assets continuing to fall due to rapid aging and low growth. Some in the industry, however, say that self-reflection to regain the trust of investors matters more than deregulation.

Korea Development Institute (KDI) research analyst Koo Ja-hyun analyzed that Korea's financial investment industry is facing a chronic low yield at the Oct. 21 symposium co-hosted in Yeouido, Seoul, by the KDI and the Korea Financial Investment Association. "Korean securities companies recorded negative 0.6 percent last year in average ROE," he said, adding, "The downward trend has continued all the way since 2009, whereas their American and Japanese counterparts are looking upward these days."

According to the KDI's recent survey, the CEOs of 34 securities firms in Korea granted a score of 59 for the country's securities industry, which is equivalent to about 60 percent of those of the United States, Britain, etc. 52.5 percent of the respondents mentioned excessive regulations on the industry as their reason for the low score. Its simple profit structure and lack of overseas business were mentioned by 39.4 percent.

"Brokerage accounts for more than 50 percent of the earnings cause the companies' profitability to fluctuate by stock market situation," he continued, "Besides, they are focusing only on the domestic market, which has driven them to chronically low profitability."

The analyst advised, "The financial authorities need to be friendlier to the market in order to help address the difficulties, and securities companies themselves have to try to seek more opportunities abroad."

Slow Financial M&As

M&As in Securities Industry Showing No Progress

The disposal of major securities companies such as Hyundai Securities and KDB Daewoo Securities, as well as that of minor firms, are taking more time than expected, despite the government's measures for the promotion of M&A in the industry.

The bidding for Hyundai Securities has been postponed from Oct. 27 to January next year. The reason for the delay is a higher selling price. However, it is currently said that the Hyundai Group might withdraw the disposal plan with as much as 2.82 trillion won (US$2.67 billion) out of the 3.3 trillion won (US$3.1 billion) procured for its self-help plan.

No specific disposal schedule has come out for KDB Daewoo Securities, either. Market insiders' consensus is that more time will be taken until the disposal of the major securities company takes concrete shape.

Things are even more difficult for smaller firms. Although IM Investment & Securities ended up in the hands of Meritz, e*Trade Securities, Leading Investment & Securities, and Taurus Investment & Securities have yet to find new owners. Apple Investment & Securities and BNG Investment & Securities had to liquidate themselves after failing to do so.

Global Funds

Korea Ranks 13th in Amount of Global Net Fund Assets

The Korea Financial Investment Association announced on Oct. 23 that global net fund assets increased by US$1.2 trillion between the first and second quarters of this year to reach a new high of US$32 trillion.

"This is because many stock markets around the world were bullish based on the high economic indices of advanced economies," the association explained, adding, "Also, investors are anticipating that asset prices will go up in the wake of the quantitative easing by the Fed."

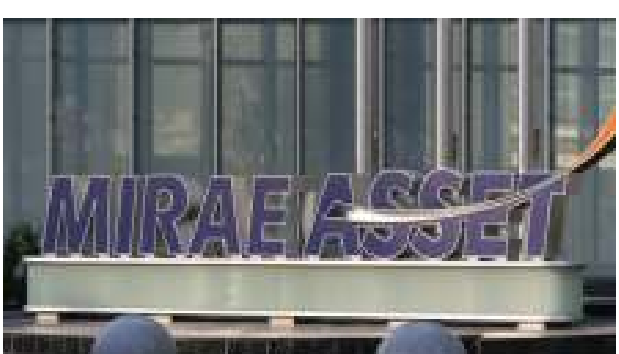
Stock-type funds increased by US$609.3 billion to drive the overall growth and bond-type funds increased by US$309.1 billion as well. However, MMF decreased by US$378.3 billion.

By region, the net assets in the Asia-Pacific region gained 5.71 percent quarter-on-quarter, while that in Africa recorded a 5.67 percent increase. Those in Europe and the Americas rose by 3.81 percent and 3.32 percent, respectively.

Forty-one out of the 46 surveyed countries showed an upturn. The United States posted the highest increment, US$15.665 trillion, to be followed by Luxembourg (US$3.3129 trillion). Korea's increment and total reached US$18.8 billion and US$309.1 billion each, so the country remains at the 13th place. BK

Most Profitable

Mirae Asset Runs Most Profitable Asia-Pacific Fund in US



Mirae Asset Global Investment's Mirae Asset Asia Great Consumer Fund recorded the highest rate of return among the 97 non-Japan Asia-Pacific funds available in the United States.

The fund, which invests in Asian companies doing business in the fast-growing consumer markets of the continent, recorded a three-year return of 77.7 percent. It was first raised in Sept. 2010 in the U.S. and then launched in Korea in October last year. The cumulative rate of return in Korea is 16.97 percent now.

In addition, Mirae Asset Global Investment's Mirae Asset Asia Fund ranked third in the U.S. with a three-year rate of 73.4 percent. Mirae Asset is currently running six mutual funds in the U.S. Three of them, including the Emerging Great Consumer Fund and the two mentioned above, have won the 5 Star grade. BK

Paradigm Shift Needed

Korean Manufacturers Need to Shift Paradigm to Leave Chinese Rivals Behind

The Korea Economic Research Institute co-hosts a manufacturing industry seminar in Myeongdong, Seoul on Oct. 27 with the Korea Economic Association and the Korea Institute for Industrial Economic & Trade.

Korean manufacturers need to focus more on a paradigm shift than on product quality if they want to be able to keep outperforming their fast-growing Chinese rivals.

At present, the manufacturing industry of Korea is sandwiched between that of China and Japan. Korea is 4.7 years behind the United States and is just 1.9 years ahead of China when it comes to scientific and technological competitiveness. The gap between Korea's and China's manufacturing sectors was narrowed from 11 to only three notches between 2000 and 2010.

"iRiver developed the world's first MP3 player, but Apple's iPod has become the final winner in the industry," said Seoul National University professor Lee Keun at the Korea Economic Research Institute's Oct. 27 seminar. He added, "The focus of business management strategy has to be shifted from product to service." He also mentioned that Xiaomi is trying to enhance its software and application capabilities nowadays instead of concentrating on selling smartphones. "Huawei, which has a longer history than Xiaomi, put first technological strength and product quality like Samsung Electronics, but it is not Huawei but Xiaomi that recently outdid Samsung in the Chinese smartphone market," he continued.

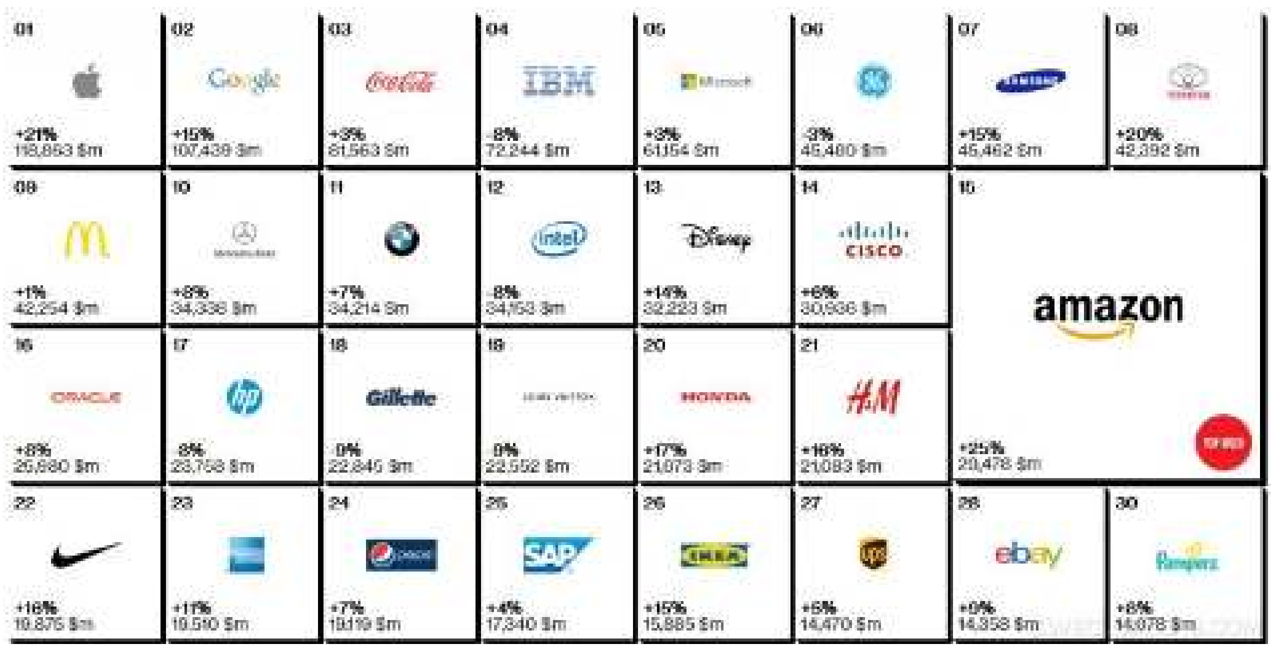
"The real threat against Korean companies is not the late starters competing in the same way, but the late starters coming up with a different paradigm," he advised. As a method of maintaining the industrial leadership, the professor suggested M&As with fledgling companies in possession of promising technology and business models. "Samsung Electronics would have felt at ease if it had taken over Xiaomi at an early stage," he commented.

Konkuk University professor Oh Jung-keun agreed with him, too. "The Chinese government is using its US$4 trillion foreign currency reserves for M&As for technology purchase purposes, and Japan is following the same way on the back of the weak yen that has continued for two years," he explained, continuing, "However, Korean companies' operating profits are decreasing due to the appreciation of the won, which has led to the lack of money for M&A, and I would like to emphasize on the importance of proper foreign exchange policy of the Korean government." Professor Baek Yoon-seok, another panelist at the conference, called for more assistance for newly established firms and future entrepreneurs comparable to what the Chinese government provided for Alibaba founder Jack Ma.

In the meantime, researcher Seo Dong-hyuk at the institute predicted that Korean shipbuilders, petrochemical companies, and telecom device and display manufacturers would have to struggle more in five years due to their Chinese counterparts. "China is likely to increase its presence also in the general machinery and semiconductor industries," he said, continuing, "China will catch up with Korea in almost all of the industrial fields except for automobile manufacturing within four years from now." BK

Global Brand Value

Samsung Electronics, Hyundai Motor Rank 7th, 40th in Global Brand Value



Interbrand released the Best Global Brand ranking for this year on Oct. 9 (local time). Apple recorded the highest brand value in the world, followed by Samsung Electronics at seventh place and Hyundai Motor Company at 40th.

In the annual survey, which celebrated its 15th anniversary this year, the top 100 companies' combined brand value reached 1.6 trillion won to show a 6.7 percent year-on-year growth. IT companies accounted for 30.8 percent of the total, with Apple and Google clinching the top and second-highest spots, respectively. Apple's brand value increased 21 percent from US$98.3 billion to US$118.8 billion. Google's increased by 15 percent from a year earlier to US$107 billion. They were followed by Coca Cola, IBM, and Microsoft, which maintained the same places as last year.

Samsung Electronics climbed a notch to seventh with a total brand value of US$45.5 billion. Thirteen IT companies joined the top 100 this year, and Samsung Electronics ranked fourth among them.

Hyundai Motor Company rose by three notches to the 40th. It gained 16 percent in brand value to reach US$10.4 billion. Kia Motors jumped from 83rd to 74th with its brand value going up by 15 percent to US$5.4 billion. Fourteen brands out of the 100 were automakers, 11 of which recorded double-digit growth. Among the carmakers, Toyota ranked first, Mercedes Benz ranked second, and BMW took the third spot. Hyundai was at seventh.

The highest rate of growth was posted by Facebook. Its year-on-year growth rate amounted to 86 percent, followed by those of Audi (27 percent) and Amazon (25 percent). In contrast, Nokia's brand value dropped by 44 percent.

Out of the top 100, 54 were American companies, 11 were German, seven were French, and five were Japanese. Five U.K. corporations joined the list as well, and Korea, Switzerland, and the Netherlands put three each on the chart. Huawei ranked 94th, as the only Chinese company in the ranking. BK

Samsung of Crises

Samsung Electronics' Sales, Profits Dropped for 2 Consecutive Quarters

Samsung Electronics' operating profits for the third quarter of this year dropped to 4.1 trillion won (US$3.8 billion), which is a three-year low. Quarterly sales plummeted by over 20 percent, too.

The company announced on Oct. 6 that its quarterly profits fell 59.65 percent from a year earlier and 42.98 percent from the previous quarter to fall short of the most recent market consensus of 4.9 trillion won (US$4.5 billion). Sales dropped 20.45 percent year-on-year to 47 trillion won (US$43.8 billion) as well, to record a 33-month low.

The problem is that the performance decline is too fast. Not a few economists are saying that it implies a significant problem with both its growth potential and productivity. Samsung Electronics, which topped 10 trillion won (US$9.3 billion) in quarterly operating profits last year, has failed to improve its profits for two quarters in a row since the second quarter of this year. The consecutive decline is the first since the first half of 2011, when the European fiscal crisis reached its peak.

The decline in operating profits is closely connected to the drop in the prices of Samsung Electronics' high-end smartphones caused by the supply of cheaper smartphones from Chinese manufacturers. Its shipment is showing no increase and the factory prices are falling, which means the business profits cannot go up.

The market consensus is that the performance would not be getting better in the last quarter. Chinese handset manufacturers are increasing their supply volumes while Apple is also threatening Samsung with new products. "It seems that Samsung lost its way between the premium image of Apple and Chinese companies' mass-market phones," said an industry insider, adding, "Samsung may have to struggle for a while down the road because cheaper phones will become the mainstream in the market over time."

At present, approximately 70 percent of Samsung phones are mass-market products, but Chinese companies are appealing much more to those customers who opt for handsets priced at US$150 or less. "Although Samsung Electronics is expected to increase its lineup of mid-market phones, this could backfire for it when its brand image is taken into account," he continued.

In the meantime, Samsung Electronics is planning to make a record-high capital expenditure of 29 trillion won (US$27 billion) next year, despite the ongoing difficulties. The amount is approximately 5 trillion won (US$4.7 billion) higher than this year's. The idea is to seek new business opportunities and contribute to the national economic recovery through the aggressive investment. Samsung Electronics' total investment for 2015 is estimated to reach 45 trillion won (US$41 billion), given that its annual R&D investment is around 15 trillion won (US$13.9 billion).

Global Management

Hanwha Life Insurance Emerges as Global Company

After successfully penetrating the Vietnamese market, Hanwha Life Insurance is actively executing its global management also in China and Indonesia.

Since its entry into Vietnam in 2009, Hanwha Life Insurance has seen the number of new contracts increase by 5 times, from 30.8 billion VND in 2009 to 145.9 billion VND in 2013. The company's business in China has also been stabilized merely one year after its penetration into the market.

In addition, the firm held an event to celebrate the completion of the Happy House project in Long An Province in July as part of its social contribution in Vietnam. The project started last year, and a total of 133 brick houses (93 in 2012 and 40 in 2014) were built and donated to those who are in need.

Sino-Korea Life Insurance, a 50: 50 joint venture between Hanwha Life Insurance and Zhejiang International Business Group, posted 89.3 million yuan (16.1 billion won as of December 2013) in initial premium one year after its operation. As a result, the joint venture became the fourth-largest foreign life insurance firm in Zhejiang Sheng, beating other nine rival companies, with a 9.1 percent market share.

The success of Sino-Korea Life Insurance is attributable to its multi-channel strategy and successful localization based on its 10-year analysis of the Chinese market. When the joint venture opened for business, it pursed a strategy that targets individual planners, banks, and group channels.

Currently, 200 insurance brokers, who were selected when the company launched the business in the country, are working in China. The firm also entered into bancassurance with Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China, and is selling endowment insurance and pension insurance that are preferred by local customers through 180 branches nationwide.

On top of that, Sino-Korea Life Insurance is making efforts to approach local customers with a friendly image by fulfilling corporate social responsibility. For example, it provided free premium subscriptions to exemplary police officers in Zhejiang Sheng, held blood drives in the quake-hit city of Yaan, and launched environmental campaigns.

The company is planning to move forward with a growth strategy based on its success, as shown by the opening of three branches in Hangzhou, Ningbo, and Jinhua only one year after its penetration into the country.

Starting in Taizhou, the joint venture is planning to expand business network in major cities in Zhejiang Sheng this year. From next year, it plans to expand its reach to Shanghai and Jiangsu Sheng in order to build business network nationwide.

Based on this successful overseas expansion, Hanwha Life Insurance is considering whether to enter other Asian countries like Hong Kong, Malaysia, or Singapore.

The Chinese life insurance market is the fifth-largest market in the world, where US$141.2 billion of premium income was reported in 2012. The market is growing roughly 15 percent each year, due to a rise in individual income propelled by the nation's economic growth, and the rapidly increasing aging population. It is expected to become the largest life insurance market by 2030. BK

New Aspect to Patent Dispute

Samsung, Microsoft Seek Arbitration in Patent Dispute

The patent dispute between Samsung Electronics and Microsoft has expanded to international arbitration.

According to industry sources on Oct. 8, Samsung and Microsoft filed a request for arbitration with the Hong Kong office of the International Court of Arbitration of the International Chamber of Commerce (ICC).

A Samsung associate said, "Previously, both companies decided to resolve any dispute related to royalties in Tokyo, Japan using arbitration according to ICC proceedings."

After signing an agreement with the Redmond-based software company for intellectual property in 2011, the Korean tech giant paid patent fees for Android phones and tablet PCs. However, when Microsoft bought Nokia last year, Samsung stopped paying patent royalties, citing that the software firm violated their contract.

After that, the Korean company paid patent fees, but did not pay interest on late payments. Thus, Microsoft filed a patent lawsuit against Samsung. The total amount of royalties paid last year is around US$1 billion (1.6 trillion won).

In its lawsuit, Microsoft said, "Interest that incurred while Samsung did not pay patent fees reached US$6.9 million," urging the Korean firm to pay the fees. The U.S. company also brought the case to the court to decide whether or not Microsoft's acquisition of Nokia's handset business violated its contract with Samsung.

Prior to this, on Sept. 30, Samsung Electronics announced that it will switch out its privately-developed word processing software "JungUm Global" with Microsoft Word to facilitate cooperation with business partners worldwide and create a smart working environment. The Korean language word processing software was developed by the company in 1994.

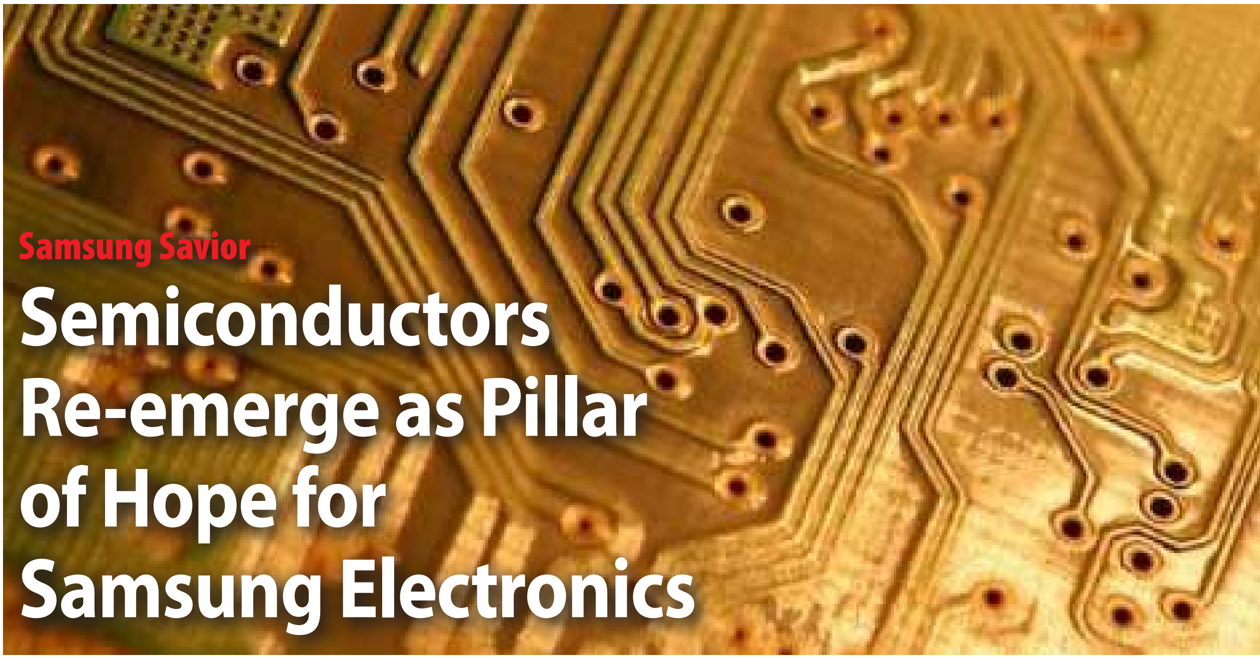
Samsung explained that Microsoft Word is used by over 90 percent of the global market and compatible with other Microsoft Office programs like Microsoft Excel and PowerPoint. It also is supported on other operating systems such as Android and Linux.

Pointing out that it had been preparing for the switch, the Korean tech giant said that its decision has nothing to do with Microsoft CEO Satya Nadella, who met Samsung Electronics Vice Chairman Lee Jae-yong on Sept. 24 during his one-day visit to Korea. The software industry is, however, paying attention to this decision, since the two tech giants have been involved in patent disputes related to smartphones. The influence of the replacement is far-reaching, since the partner companies and affiliated companies of Samsung need to switch from JungUm Global to Microsoft Word as well.

With this decision, a change in the dynamics of the local word processing software market is expected.

Over the past several years, Microsoft Word has maintained a 80 percent share of the market, while Hanword, mainly used in public institutions and schools, has retained the remaining 20 percent share. However, the market's center of gravity might shift further towards Microsoft Word stemming from Samsung's decision.

Meanwhile, Samsung cannot avoid criticism that its choice will aggravate the nation's heavy reliance on Microsoft Word, even though the measure is aimed at adapting to globalization. The criticism is due to the fact that the decision is against a growing trend towards the Open Document Format for Office Applications (ODF) to reduce serious dependence on Microsoft Word, as shown by the U.K. and South Korea.



Samsung Savior

Semiconductors Re-emerge as Pillar of Hope for Samsung Electronics

Samsung Electronics' mobile business, the top contributor for the stellar sales growth of the company in the past, is expected to see a dramatic drop in its operating profits stemming from sluggish sales of smartphones.

In contrast, the semiconductor business will generate profits based on a consistent demand for products. Furthermore, the System LSI division, which has fallen behind Qualcomm and Intel, is exhibiting good performance. As a result, the semiconductor business is once again in the spotlight.

According to industry sources on Sept. 30, Samsung was reportedly asked to manufacture application processors (AP) for the Apple Watch scheduled to be released early next year. Samsung's 28 nm or 20 nm process technology will be used for chipsets. Once the 20-nanometer-class APs are mass produced, supplies are expected to greatly increase. The Korean tech giant is also planning to supply memory semiconductors like DRAM and NAND flash memory chips for Apple's new wearable device. Previously, Samsung's 10 nm class 3-bit NAND flash are used in the iPhone 6 and the iPhone 6 Plus released on Sept. 19.

Thanks to the good sales performance of top-ranked memory semiconductors and the improved performance of the System LSI division, the semiconductor business is expected to post quarterly operating profits of more than 2 trillion won in the third quarter.

According to reports recently published by 10 securities companies, Samsung's semiconductor business is projected to record 2.629 trillion won (US$2.471 billion) in operating profits in Q3, similar to the 2.2797 trillion won (US$2.1415 billion) of the IM division. Mirae Asset Securities and Woori Investment & Securities even predicted that the semiconductor business's quarterly operating profits will exceed the figure for the IM division in Q3. If the prediction turns out to be true, it will be the first time for the semiconductor division to achieve higher operating profits than the IM business in 13 quarters, after its previous achievement in Q2 2011.

Wrong Choice?

In the meantime, in an article titled "Samsung's woes: Saved by the chips" posted on its website on Oct. 7, The Economist said that Samsung's decision to select the semiconductor business as an alternative that can address aggravating performance was not the best choice.

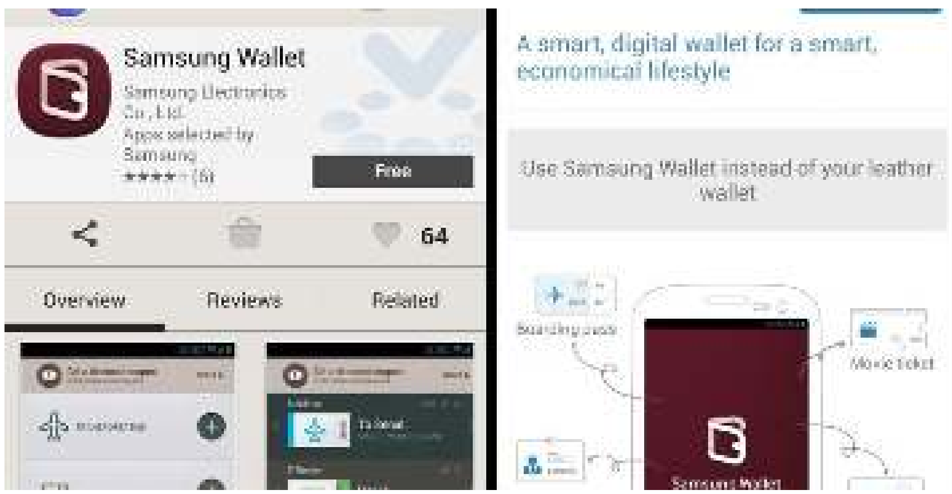
The British economic weekly mentioned low-cost companies' offensives, Apple's counterattack with its new iPhones, and market saturation. It pointed out, "But Samsung's biggest problem is that rival mobile devices are increasingly being sold alongside software and services that it cannot match. As Samsung is structurally a hardware company, it would surprise many if it suddenly came up with great apps or extra services." The Economist added, "The firm's best chance may be to stick with gadgets, and to try to create ones that consumers love so much that they fly off the shelves."

The Economist appears to be skeptical about Samsung's decision to increase its investment in its semiconductor business. It said, "Although the decline of its smartphone business will not be an existential threat to Samsung, it remains to be seen whether making chips will replace all the profits it has lost."

On Oct. 7, the Korean tech giant announced that its operating profits for the third quarter plummeted to 4.1 trillion won (US$3.8 billion), which is the lowest in three years. On the previous day, the company also announced that it will invest 15.6 trillion won (around US$15 billion) in the construction of a new semiconductor plant. BK

IT-Finance Convergence

Samsung Accelerates Building of Combined IT-Banking Platform



The Samsung Wallet application is available for download on Google Play.

Samsung Electronics is gearing up to unveil a mobile money transfer service in the local market, following a mobile payment service. Samsung's move can be interpreted as a strategy to accelerate the convergence of IT with the banking sector, since the company is eager to jump on the IT-banking bandwagon.

Recently, an increasing number of companies are trying to launch services by combining the IT and banking areas. Apple is making efforts to enter the Korean market through Apple Pay, while global companies like eBay and Alibaba are competing with each other to increase their share of the mobile payment market.

After launching the mobile payment service Samsung Wallet in the country, the Korean tech giant is planning to debut a mobile money transfer service in partnership with Yelopay. An industry source said, “If mobile payments and money transfers are possible via Samsung phones, it will have special meaning in many ways.”

Currently, Samsung is providing mobile payment services in 29 countries, including North and South America, Europe, and Asia. It has been strengthening its customized mobile payment business through its localized strategies.

Specifically, the tech firm is providing a mobile NFC payment service via the Galaxy S5 in 25 countries such as the U.S., Europe, Brazil, and Hong Kong, in collaboration with PayPal. The service is based on the finger recognition feature of the Galaxy S5. The company is going to integrate this service into its wearable devices like the Gear.

As for the Chinese market, Samsung started a mobile NFC payment service in September in partnership with UnionPay. UnionPay is the largest credit card company in China, and represents more than 80 percent of the local market. It is the first time for the Chinese firm to partner with any handset maker. People can use the mobile NFC payment service on the Galaxy Note 3 and the Galaxy Note 4. Members of China Unicom can also use this service with not only the Galaxy Note 4, but also previous models like the Galaxy Note 3 and the Galaxy S4.

The Korean tech company is stepping up its efforts to build a mobile banking platform in other countries using localized strategies. For example, Samsung forged a partnership with Commonwealth Bank of Australia and Westpac Bank in Australia, with Standard Bank in Russia. Therefore, the success of its mobile money transfer service in the local market could create synergy in existing platforms.

The meaning of Samsung’s mobile money transfer service launch is not small in the local mobile banking market, where mobile carriers and financial companies are competing more intensely, as Daum Kakao has launched its own mobile money transfer service Bank Wallet Kakao and mobile payment service Kakao Pay. BK

e-Financial Market

Foreign IT Giants Eye Korean Financial Service Market

Barriers are disappearing in the financial service industry. Internet firm Tencent and e-Commerce company Alibaba are moving into the banking business, and global IT powerhouses such as Google and Apple are flocking into the payment market. Under the circumstances, industry experts point out that the local financial authorities should eliminate regulations, so that Korea doesn't fall behind in the fast-changing global financial market.

Alibaba, the largest e-commerce company in China that recently listed itself on the New York Stock Exchange with great success, has been granted a permit to establish a private bank. Tencent, in the meantime, started to establish WeBank in July of this year in the Chennai Special Economic Zone located in Guangdong Province. The Wall Street Journal has reported that the emergence of the two Chinese companies having a technological strength in will have a great impact on the global IT and financial sectors as a whole.

In Japan, e-commerce firms such as Rakuten and Sony Finance are running Internet banks. American securities firms, credit card companies, and automobile manufacturers are running their own Internet banks, too. BNP Paribas has launched the mobile bank of Hello Bank in Europe as well.

The payment market is showing a fundamental shift as well. Google has launched an e-wallet service titled Google Wallet and e-Bay's PayPal and Alibaba's Alipay are also evolving rapidly, based on various payment services. In September, Apple unveiled its mobile payment service, Apple Pay, with the new iPhones. Apple Pay is a credit cardless payment service using the NFC feature of the iPhone 6 and iPhone 6 Plus.

Nevertheless, Korea is failing to catch up with the trends. The financial companies and banks that made an attempt to establish Internet banks in 2000 were thwarted by existing regulations. Although the Financial Services Commission decided in July to discuss the issue as a part of deregulation efforts, the issue is scheduled to be handled over a long term.

Fresh attempts are being made in the payment market as well, but the opposition from some financial institutions and government regulations still remain. At present, Kakao is trying to release the remittance service dubbed Bank Wallet Kakao with the Korea Financial Telecommunications and Clearings Institute, and some local banks and the payment service of Kakao Pay with LG CNS and credit card firms. Naver is also moving to acquire shares of Korea Cyber Payment (KCP) via its subsidiary NHN Entertainment.

Korean Paypal to Come

Starting in July of next year, however, online payment service providers in the country that have more than 40 billion won (US$37.6 million) will be able to store credit information if they satisfy security standards such as the Payment Card Industry Data Security Standard (PCI DSS) requirements. As a result, local companies are likely to provide more diverse online payment services like foreign online payment service providers such as Alipay and PayPal.

On Oct. 1, the Credit Finance Association of Korea (CREFIA) and the credit card industry announced that they set security and financial standards aimed at storing credit information by online payment service providers to expand online payment services. Under the standards, online payment service providers are required to meet the PCI DSS requirements to obtain eligibility for retaining credit information. The PCI DSS is a set of security standards to protect card payment data from card data hacking, theft, and the resulting fraud. The standards were created by international card companies such as Visa and MasterCard. Alipay and PayPal are complying with these security standards. BK

Sharp Decrease

Korean Smartphone Makers See Sharp Decrease Caught between Apple and Xiaomi

Korean manufacturers' smartphone exports dropped by 35.5 percent year-on-year last month due to the release of Apple's iPhone 6 and a rapid sales decline in China and the ASEAN region.

The Ministry of Trade, Industry and Energy announced on Nov. 6 that smartphone exports totaled US$1.1 billion last month. The export amount had been US$900 million in September 2014, 13.4 percent less compared to the same period of 2013.

The total exports from the information and communication technology (ICT) sector decreased from US$16.23 billion to US$16.07 billion between October 2013 and October 2014 due to the sluggish performance of the segment. Meanwhile, the ICT imports increased 1.7 percent to US$7.89 billion, with mobile phone imports going up by 64.4 percent.

Korea's smartphone exports to the United States rose from US$510 million to US$600 million between October 2013 and October 2014. However, the 17.64 percent increase is easily eclipsed by the 82.14 percent spike that was recorded between October 2012 and October 2013. Besides, the exports to the EU dropped by 67.47 percent, from US$495 million to US$161 million, and those to Japan by 49.77 percent from US$219 million to US$110 million during the same period. October is a peak season for electronics manufacturers because it marks the beginning of the Christmas shopping season in advanced countries. However, Korean smartphone manufacturers could not enjoy it this year due to the new iPhone launched in the previous month.

They showed poor performance in other markets, too. Their smartphone exports to the ASEAN region and China plummeted from US$64 million to US$20 million and from US$40 million to US$21 million during the period, respectively.

Korean makers have a serious dilemma to deal with. Samsung Electronics, which was overtaken by Apple in the third quarter of this year, is now behind Xiaomi in the Chinese mobile phone market, including the feature phone segment. LG Electronics is also stuck between Apple and Xiaomi.

Market research firm Strategy Analytics recently announced that Xiaomi recorded a market share of 15.4 percent in China during the quarter to beat Samsung Electronics by a margin of 1.9 percentage points. The market shares are 16.2 percent for Xiaomi and 13.3 percent for Samsung Electronics when feature phones are counted out.

In the third quarter, Xiaomi ranked third in the global smartphone market and fifth in the global mobile market. Although still leading the latter, Samsung Electronics failed to break the 80 million unit sales volume mark in both the second and third quarters, after having hit 89 million in the first quarter. LG Electronics sold 16.8 million smart phones in the third, but failed to catch up with Xiaomi.

"Samsung Electronics is trying to win over Chinese consumers with mid-end handsets such as the Galaxy A3 and A5, but an increasing number of them are opting for China-made smartphones," said an industry expert, adding, "Once Chinese companies come up with high-spec yet low-price phones, Korean manufacturers will find it very hard to tackle them."

Functional Defects

Apple to Change Controller IC of NAND Flash Used in iPhone 6, iPhone 6+

Functional defects in some of Apple's latest smartphones were observed.

According to overseas IT news sites on Nov. 2, problems were reported related to data storage in the iPhone 6 and iPhone 6+.

Business Insider reported on Oct. 24 that a number of 128GB iPhone 6+ users had reported functional defects via Twitter. When owners switch between apps or check notifications, the phone is said to inexplicably crash or enter a reboot loop.

Apple Insider also reported on Oct. 23 that some owners had replaced their iPhone 6+ four times. It was also pointed out that Apple's recent iOS 8.1 update did not fix these defects.

Some in the industry pointed out that considering that technical defects mainly occur in the 128GB version of the iPhone 6 Plus, there might be a problem in the controller IC of triple-level cell (TLC) NAND flash.

TLC flash is a type of solid-state NAND flash memory that stores three bits of data per flash media cell. It can store two to three times as much data as a single-level cell (SLC) that stores one bit of data and a multi-level cell (MLC) solid-state flash memory that stores two bits of data. Moreover, TLC flash is more affordable. However, TLC is slower than SLC or MLC in reading and writing data.

To reduce cost, Apple reportedly used TLC NAND flash in the 128GB version of the iPhone 6+ and some other models. Previously, TLC NAND was used in some iPads, whereas more expensive but more stable MLC NAND was used in most of the iPhone series.

Some in the industry think that if TLC flash is indeed the cause of the defects, Apple might recall all of the products that have been sold so far.

The iPhone 6 and iPhone 6 Plus.

As controversies over the functional defects of the iPhone 6+ have been growing, Apple has decided to stop its use of triple-level cell (TLC) NAND.

According to industry sources on Nov. 6, the U.S. smartphone giant finally has decided to discontinue its use of triple-level cell (TLC) NAND, since the company believes that the functional defects plaguing the 64GB iPhone 6 and the 128GB iPhone 6+ stem from a problem in the controller IC of the TLC NAND flash. The controller IC in question is reportedly made by SSD maker Anobit, which was sold to Apple in 2011.

TLC NAND flash is a type of solid-state NAND flash memory that stores three bits of data per cell. It can store three times as much data as single-level cell (SLC) that stores one bit of data, and 1.5 times as much as multi-level cell (MLC) solid-state flash memory that stores two bits of data. On top of that, TLC flash is more affordable. However, it is also slower than SLC or MLC in reading and writing data.

As a result, Apple is planning to use MLC NAND flash in the 64GB iPhone 6 and the 128GB iPhone 6+ in the future. The company will reportedly improve products already equipped with TLC NAND by providing the iOS8.1.1 update within the year.

The U.S. tech giant is riding high in Korea, as it already sold 100,000 units of the iPhone 6 and iPhone 6+ on the release date (Oct. 31) alone. Some mobile carriers already sold out of 64GB and 128GB models. Additional supplies are expected to be possible as early as this month.

MLC NAND was used in the 16GB version of the iPhone 6 and iPhone 6+ and some of the 64GB models, but LC NAND was used in all of the 128GB models. Apple apparently used TLC NAND to reduce costs. Previously, some iPads featured TLC NAND. BK

Mobile Museum

SK Telecom Brings Virtual Reality, Programmable Robots, and Fun to Rural Areas


SK Telecom's mobile museum set up in the playground of Songji Elementary School in Haenam, Jeollanam-do, South Korea.

I fully grasped what SK Telecom was doing way out there in the southwestern corner of Korea when I saw the classroom full of robots. Attached to each robot via USB cable was a laptop computer. And on the screen of the laptop computer one could see the brightly-colored blocks of Scratch, a program designed to teach young minds how to write computer programs. I counted 16 mobile robotics programming workstations set up to show these elementary school students that it is possible to tell their toys to move exactly how they want them to move. And in today's atmosphere of rapidly-advancing technology, that knowledge can be the key ingredient to a successful life for the next generation.

SK Telecom brought this journalist to Songji Elementary School, a two-hour drive from the city of Gwangju, which is itself a one-hour flight from Seoul, the capital of South Korea. The area is called Haenam, as is a town we passed to get there. The area includes Ttangkkeut Village, famous for being located on the southernmost tip of the Korean peninsula, a scant 10 km away from the elementary school. And there were four giant bubbles in the playground.

The bubbles constituted SK Telecom's T.um Mobile Museum, a museum that is both mobile in the sense of movement and in the sense of the gadgetry on display. The bubbles were air-filled clear plastic, kept inflated by air conditioning. Roughly divided into bubbles for the past, present, and future, the museum included a display of every model of phone that SK Telecom has produced, all wired up to play together in a digital orchestra. The spectacle was mildly interesting to the attending students, who had probably never before seen such ancient relics. Some of them didn't even have screens!

The bubble of the present focused on smartphone apps, augmented reality, and the Atti robot, the robot that wears a smartphone on its head as a hat. Atti's movements are programmable. It can walk, bow, blink several lights on its body, turn, move its arms, and detect a touch on its body. It can also play sounds and video on its smartphone hat, which can also be used for interactive learning applications and everything else that a smartphone can do.

While the students were mildly interested in the past and the present, it was obvious that they were all tangibly excited for the future. This was because, in the future bubble, SK Telecom had brought an Oculus Rift booth. Four at a time, students were able to sit down, put on a headset, and begin to explore an immersive, virtual 3D world. A small sensor set up on a table in front of each student tracked their hand movements too. It allowed them to manipulate the virtual environment shown within the headset by waving one ghostly virtual hand through glowing interfaces that they discovered by looking left or right and exploring the virtual environment. After moving through a virtual house, they could enter a virtual kitchen and prepare a virtual cake. The kids all loved it.

But the robots – the kids loved the robots more. The youngest elementary school students received a crash course in driving around robots in real time by a bright and engaging guest teacher who had come as part of the SK Telecom staff. Using an interface on their smartphone, some students tried to maneuver their robot through a printed maze. Other students played soccer, pitting two robots vs. two others, all of them trying to push a soccer ball around a small field.

Older elementary school students received a crash course

16 mobile robotics workstations brought to this classroom by SK Telecom to give students in this remote village experience in the particulars of both robotics and programming technologies.

SK Telecom's mobile orchestra that includes mobile handsets past and present, all wired up to play digital music together.

Students watch the SK Telecom mobile orchestra, a collection of every mobile handset that SK Telecom has produced, wired up to play digital music in concert.

The Atti programmable robot by SK Telecom. The robot is controlled by a smartphone mounted on top of its head.

A student explores a virtual 3D world inside his Oculus Rift headset, put together by joint cooperation between SK Telecom, which made the software, and Oculus, which made the hardware. The small black sensor on the table in front of the student detects hand movement, allowing him to interact with his virtual environment.

Students listen to an SK Telecom teacher to learn how to pilot their robots through a printed maze.

Students use their smartphones to play soccer by driving their robots and pushing a soccer ball around a printed field.

in programming using Scratch and Atti. Scratch is a programming language developed specifically to teach children how to write computer programs. It starts off with a visual computer interface full of brightly-colored blocks that students can put in order, one after another. Each block represents a different action that the Atti robot, which is connected to the computer via a USB cable, can perform. For instance, if a student would like the Atti to walk forward, bow, and flash its lights, the student could simply drag the blocks for walking, bowing, and light flashing into a row, and then press a button to execute the program. In this way the students can get immediate feedback to their actions and learn what it means to program. For curious students, the details of each action block can be modified, so that a robot could be told to move 5 cm exactly, bow for 4 seconds, and then flash only the left eye light. Students can then learn the valuable lessons of discovery and experimentation, arguable the most important aspects to a technologically-inclined mind.

Eventually, though, it was all over. While the students could stay longer, I had a plane to catch. As we left Haenam and traveled through seemingly endless golden fields of rice on our way back to one of the largest cities in the world and the heart of the smartphone revolution, Seoul, I struggled to remain objective and impartial about what I had seen. The T.um Mobile Museum by SK Telecom is, of course, a public relations gesture. But in the end, after seeing so many smiling, laughing kids so engaged in virtual reality, robotics, and programming, I had to admit that it was also something else – it was a great idea!

Offensives of Chinese Phones

Direct Purchases of Low-priced Chinese Smart Phones Increase in Korean Market

Empty low-priced Chinese smartphones are being actively sold in Korea. Starting with Xiaomi, Chinese smartphones are showing very high quality relative to price.

According to the distribution industry on Oct. 8, empty versions of the latest Chinese smartphones can be directly purchased at around 200,000 to 300,000 won (US$187 to 281), on average, through open markets.

Since the Mobile Device Distribution Improvement Act became effective on Oct. 1, subsidies on mobile devices have been drastically reduced. While more and more consumers are complaining about this situation, relatively cheap Chinese smartphones are getting popular.

Interpark purchased empty Chinese smartphones from Xiaomi, Huawei, and OnePlus One, to sell in Korea starting from early last month.

The price of the Xiaomi MI3, 18 million of which was sold in China, is 336,720 won (US$315.79), which is lower than half the price of the Galaxy Note 4 (957,000 won, or US$897.52). Other products of Xiaomi, such as the Redmi Note 3G and the Redmi 1S, are priced around 200,000 won as well.

Millions of Chinese smartphones have been sold since they were released.

An employee at Interpark said, “Since the Mobile Device Distribution Improvement Act became effective, more and more consumers have become interested in Chinese smartphones. The number of clicks on such products doubled this week compared to last week.”

The Korean Telecommunication Consumers’ Cooperative Union started to sell Xiaomi smartphones last July by co-purchasing them with Refurbish and G Market, companies specialized in direct purchasing. In the case of the Redmi Note, Redmi 1S, and MI3, the price of joint purchasing is around 200,000 to 350,000 won (US$187 to 328). On July 29, when the Redmi Note first appeared on G Market, this product was ranked on the top in empty device sales, beating all Korean phones.

Demand for empty foreign smartphones, including Chinese ones, is increasing overall. Sales of empty foreign smartphones surged 111 percent this year compared to the same period last year. This is much higher than the sales growth of empty Korean phones (11 percent).

In this situation, Huawei, which has been competing with Samsung Electronics and Apple through its product quality, introduced its very first smartphone, the X3, in Korea on Oct. 7. At a price 528,000 won (US$495.18), the X3 is not as cheap as expected. However, with a subsidy of 180,000 won, the actual purchasing price is around 350,000 (US$328). This model is available to buy at open markets.

The release of the Lenovo K800 smartphone at CES 2012 in Las Vegas.Low-priced Chinese smartphones are mushrooming due to the Terminal Distribution Structure Improvement Act.

Counter-Phones

Responding to low-priced Chinese phones, Samsung and LG will release new low-priced smartphones following the Samsung Galaxy Core and the LG G2.

According to industry sources on Oct. 19, LG Electronics' new model is in the price range of 400,000 to 600,000 won (US$377 to US$566). The actual price is likely to be lower than 300,000 won (US$283) if mobile phone subsidies provided by mobile carriers are taken into account.

Samsung Electronics is also reportedly planning to roll out mid- to low-range phones early next year, and feature phones within the year. Considering that the launch price of the Samsung Master released in May of last year was around 200,000 won (US$188), new feature phones are expected to be in a similar price range.

The reason for the two Android phone makers' decision to introduce mid- to low-cost models lies in a drastic drop in the sale of smartphones, since it is more expensive to buy smartphones after the act on improving the distribution channel structure of cellphones was put into effect in Oct. 1.

According to the Kore Telecommunications Operations Association, an average of 5,000 people subscribed to used phones per day from Oct. 1 to 14, a 77.9 percent month-on-month increase from 2,900 people. An increase in subscribers is due to the fact that previously-unpopular foreign-made phones and used phones are now drawing a lot of attention after the implementation of the law.

Mired in Deficits

Social Commerce Companies Drowning in Red Ink

Korean social commerce sites like TMON and Wemakeprice are suffering from operating losses each year. The main reason is that they are conducting cutthroat competition against each other by spending a huge amount of money in advertising and marketing. But some point out that the underlying problem is the high-cost business structure resulting from high wages.

According to industry sources on Oct. 6, TMON has a 1,200 strong workforce, Coupang as 1,300, and Wemakeprice hosts 1,400 employees. Each company has already exceeded the 950 staff of eBay Korea, which runs online auction and shopping mall websites such as Gmarket, Auction, and G9.

However, the social commerce companies' productivity is not high. According to an audit report submitted by TMON, the firm spent 37.653 billion won (US$35.3449 million) on salaries last year. The ratio of labor cost to the company's total revenue (114.883 billion won, or US$107.761 million) amounted to 32 percent.

Wemakeprice turned over 78.582 billion won (US$73.711 million) in 2013, and the weight of labor costs (16.522 billion won, or US$15.494 million) was 21 percent. In contrast, labor costs merely accounted for 8.4 percent of eBay Korea's earnings (662.246 billion won, US$621.650 million) last year.

Experts are saying that there is a fundamental problem with the business structure of social commerce companies. Online auction and shopping mall websites act as a bridge that connects sellers and buyers. Social commerce sites, on the other hand, directly dig out and introduce products. They also plan and produce content. In other words, they recommend and sell products to consumers.

An industry source said, "Sales personnel who find products are very important for social commerce sites. So, their labor costs are bound to be higher than those of online auction and shopping mall websites." The source added, "Also, the number of products in social commerce sites is much lower than online auction and shopping mall websites that carry hundreds of thousands of products. Therefore, it is hard to narrow the gap in sales."

TMON posted an operating loss of 70.767 billion won (US$66.429 million) last year, and Wemakeprice reported a loss of 36.069 billion won (US$33.858 million). Both companies have operated at a loss for 4 years after starting their business. In 2013, TMON spent 21.885 billion won (US$20.528 million) on advertisement and sales promotion while Wemakeprice spent 62.927 billion won (US$59.012 million) for the same purposes. BK

5G Commercialization

Korea Aims to Commercialize 5G Tech by 2020

etary General Hamadoun Toure (5th from left) take a commemorative photograph after attending the 2014 ITU Plenipotentiary Conference (PP-14) held at BEXCO, Busan on Oct. 20.

The 5G Global Summit, a special event for the 2014 ITU Plenipotentiary Conference (PP-14), was held in BEXCO, Busan. The event is aimed at sharing information about 5G technology and facilitating international cooperation.

"To prepare for the 5G era, it is essential for the government and private organizations around the world to cooperate in major issues like the development and standardization of necessary technology and the frequency band," said Yoon Jong-rok, vice minister of the MSIP, at a seminar. He added, "This event, where experts of major countries in the 5G area will share information and cooperate with each other, will serve as an opportunity to build a cooperative system that can bring about a win-win situation."

In the meantime, Samsung Electronics and SK Telecom forged a partnership to lead a next-gen 5G era, and thus Korea has taken one step forward in leadership of 5G technology. Samsung has already successfully demonstrated 5G technology, and SK Telecom has lead global mobile communications technology, from its commercialization of CDMA in 1996 to the popularization of LTE-A in 2013. The partnership is expected to create synergy.

Samsung is working on developing core technology to commercialize 5G networks by 2020. The commercialization of 5G will open a new ICT world, IoT World, and network society.

5G is different from 4G. The new tech will make it possible to transmit 1,000 times more data 1,000 times faster. The number of synchronizable devices will increase by 10 to 100 times, reaching 50 billion. The method will deliver five times faster response speeds and 10 to 100 times faster connection speeds. Battery life expectancy will increase by 10 times.

The two IT companies have decided to cooperate with each other to share their vision for 5G with other companies and consultation bodies at home and abroad involved in setting a global standard for 5G technology. They also agreed to cooperate in the definition and selection of the frequency bands suitable for 5G. Both firms are going to lead the efforts in the research and development of 5G-based technology that are related to making next-gen small cells, high-capacity multi-I/O antennas, and next-gen modems. After that, they will jointly conduct tests.

Governmental Promotion

Korean Government to Develop Smart Media Industry Worth 14 Trillion Won by 2020

The Ministry of Science, ICT and Future Planning (MSIP) has established a plan to nurture the local smart media industry to until it grows to 14 trillion won (US$13.2 billion) by 2020.

The decision is attributable to the fact that N-Screen services such as over-the-top (OTT) services, where it is possible to use broadcasting service using a USB dongle, are expanding with the expanding use of mobile devices. It is also due to the fact that new smart media industries such as digital signage and smart home industries are in the spotlight as new growth engines.

The MSIP held a public hearing on its plan for the development of the smart media industry at Gwacheon National Science Museum on Oct. 15, saying that it will increase the size of the local smart media market from 2.7 trillion won (US$2.5 billion) to 13.8 trillion won (US$13.0 billion) by 2020. Under the plan, the number of people working in the related industries is expected to increase from 26,000 to 136,000.

In addition, the Ministry is planning to double the share of the global broadcasting market from 2.6 percent to 5.0 percent in order to enhance the nation's competitiveness in technology. The country's current competitiveness level is 70 percent, while the goal is 95 percent. It also plans to foster two platforms that could be used in smart media around the world.

Smart media refers to OTT services like YouTube and Netflix, wearable devices, next-gen immersive media that provides emotive information, digital signage, and smart homes. The government agency said that so far, the legal status and system of smart media has been unclear and inadequate, but it will implement a policy aimed at nurturing the industry to bring about production inducement effects of 84.2 trillion won (US$79.2 billion) by 2020.

Specifically, smart broadcasting, digital signage, social media, and cyberspace media were selected as core platforms. The Ministry also established a mid-long term strategy for the research and development (R&D) of technology mainly in immersive media, emotive media, and sympathetic media.

The MSIP is planning to invest 207.1 billion won (US$194.9 million) in the R&D of major smart media platforms and related technology by 2020. BK

Samsung-Facebook Meeting

Facebook CEO Looks Foward to More Cooperation with Samsung in Connecting the World

Facebook CEO Mark Zuckerberg in a dust-free garment (center) tours a Samsung semiconductor factory with Facebook COO Sheryl Sandberg (3rd from right) and David Marcus (right), vice president of messaging products.

Facebook CEO Mark Zuckerberg met with Samsung Electronics Vice Chairman Lee Jae-yong on Oct. 14 and reportedly agreed on ways to forge a strategic partnership between the two IT giants in services and content. This is the second time for the Facebook CEO to visit the Samsung Electronics building since June 2013.

A Samsung associate said, “I think that the meeting will serve as an opportunity to increase our competitiveness in not only smartphones but also software content through our partnership with Facebook.” The official added, “As far as I know, both companies reached an agreement on cooperative measures in businesses.”

Zuckerberg reportedly explained his plan for Facebook's first foray into virtual reality devices and the content business through Oculus VR, which was bought by the social media company this year. He is also said to have made a request for close cooperation between the two companies to strengthen its business.

Specifically, he said he wants to cooperate with the Korean tech giant to penetrate the mobile market too. The CEO also reportedly showed his interest in the healthcare and mobile payment markets and exhibited his desire to partner with Samsung in those fields.

In particular, Facebook is said to be eying the healthcare business, which Samsung and Apple are both working on separately. Therefore, Zuckerberg apparently discussed a way to cooperate with the Korean company to turn its online community-based healthcare service into a money-making venture. The idea behind the healthcare service is that when users upload their heath information through a health app, other people or public organizations can share this information through social networking services.

Samsung is already providing this service through its health-tracking app “S Health” on its smartphones and the Gear series smart watches. Hence, if the Android phone maker cooperates, Facebook can enter this related business.

In addition, Zuckerberg and Lee coordinated different opinions about the release date and major specifications of a “Facebook Phone,” which was discussed on Zuckerberg's previous visit. They also seem to have discussed a way to connect Samsung's music service Milk with Facebook.

Meanwhile, Zuckerberg posted the picture above on his Facebook account on Oct. 18, expressing his gratitude to Samsung.

Zuckerberg said, “A highlight was seeing the Hwaseong campus where Samsung produces 40% of the world's memory chips,” adding, “The precision of their process is inspiring.”

He remarked, “Thank you to the Samsung team for hosting us. We look forward to working together to connect the world.” BK

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Manufacturing Crisis

Korean Manufacturing Companies Rapidly Losing Growth Potential

A scene at a Hyundai Motor manufacturing plant.

Korean companies' sales growth rate recorded an all-time low last year. In particular, manufacturers in the automobile and IT industries and big businesses posted a sales growth rate of less than 1 percent.

The Bank of Korea announced on Oct. 16 that 492,288 Korean companies showed an average sale growth of 2.1 percent last year. This percentage is a record low since 2002, when statistics began to be compiled. Also, the rate fell from 15.3 percent to 12.2 percent and then to 5.1 percent between 2010 and 2012.

That of the manufacturing sector plummeted to 0.5 percent, which is the lowest ever since 1961. The sector recorded a percentage below 1 percent, specifically 0.7 percent, only in 1998 until 2012. Big businesses' sales growth rate dropped from 5.0 percent to 0.3 percent between 2012 and 2013 as well, while that of small and mid-size enterprises edged up from 5.3 percent to 5.6 percent. The sluggish performance on the part of the former can be attributed to the appreciation of the Korean currency and the global economic recession, according to the central bank.

Corporate profitability is deteriorating at a rapid pace, too. Last year, Korean companies recorded a pre-tax profit rate of 2.9 percent. The rate dropped from 4.9 percent to 3.7 percent between 2010 and 2011, and to 3.4 percent the following year. Their profit-to-sales ratio remained at 4.1 percent in 2012 and 2013.

Under the circumstances, the corporations are trying to enhance their stability by means of debt reduction. The average debt ratio was reduced from 147.6 percent to 141.0 percent between 2012 and last year and the total borrowings to total assets fell from 31.9 percent to 31.5 percent during the same period.

LG Economic Research Institute analyst Lee Han-duk also released a report on Oct. 21, pointing out that Korean manufacturers are losing steam at a rapid pace to the point of falling behind non-Korean manufacturers in terms of growth rate since 2012.

According to the report, Korean manufacturers' asset growth rate plummeted from 11.5 percent to 1.2 percent and 3.3 percent between 2011 and 2013, and their tangible asset growth rate has been limited to below 1 percent since 2012. Their sales growth rate plunged from 15.8 percent to 0.9 percent between 2010 and the first half of this year, too.

In contrast, the asset growth rate of non-Korean manufacturers showed a gradual recovery from 3.7 percent to 5.1 percent between 2012 and 2013 and reached 4.8 percent in the first half of 2014, when they recorded a sales growth rate of as high as 6.0 percent.

The decline in Korean manufacturers' international competitiveness is partly attributable to the sluggish performance of Korean exporters caused by the appreciation of the won. Companies engaged only in domestic business posted a sales growth of 3.7 percent in H1 this year, but exporters have remained below 0 percent all the way since last year.

"Tangible assets account for just 10 percent or so of the total assets of American, German and Israeli enterprises," the analyst pointed out, adding, "Korean companies have to focus on efforts for innovation in order to fare better in the global market."

In the meantime, Siemens Chairman Joe Kaeser, who visited recently Seoul, appraised Korea as a model country, which has been optimized for the era of the "fourth industrial revolution" or "industry 4.0," which is a convergence of the digital and manufacturing industries, at a guest lecture of the Smart Revolution Forum foundation ceremony held at Lotte Hotel in Seoul on Oct. 21. In particular, Kaeser delivered a message of hope that South Korea's manufacturing industry, that is currently facing a crisis, has great soil to lead the era of a smart revolution. BK

Enhanced Server DRAM

Samsung Starts Mass Producing 20 NM 8 GB DDR4 Server DRAM

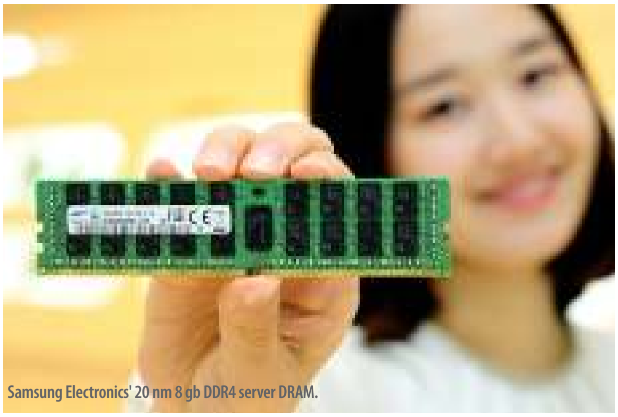
Samsung Electronics announced that it has established a full line for the production of 20 nm DRAM to be used for PC and mobile servers by succeeding in mass production of 20 nm 8 Gb DDR4 on Oct. 21.

The mass production of the server DRAM started to meet the schedule for launch of CPUs specialized as DDR4 servers. Modules for DDR4 servers based on the new RAM perform at 2400 Mbps, 30 percent faster than existing DDR3, while consuming only 1.2 volts, lower than the 1.5 volts of DDR3.

The company came to be able to supply a maximum 128 GB modules by matching the 20 nm 8 Gb DRAM to the cutting-edge technology of Through Silicon Via (TSV).

Existing 4 Gb products go up to 64 Gb, but this new RAM has holes drilled into the top and bottom of the chips, making it possible to connect electrodes to another chip using through penetration electrode (TSV) technology. So the maximum size that modules can be is 128 GB.

An official at Samsung Electronics' memory business unit said, "The company will increase the weight of 20 nm DRAM in production to supply the higher-performance, larger-capacity, lower-power products to meet the increasing demand by global customers."



Samsung Electronics' 20 nm 8 gb DDR4 server DRAM.

3-bit V NAND

Samsung to Mass Produce 3-bit, Multi-level-cell 3D NAND Flash

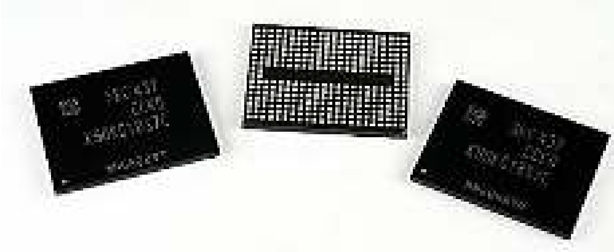
Samsung Electronics announced on Oct. 9 that it has begun to mass produce the industry's first 3-bit, multi-level-cell (MLC) 3D NAND flash memory chips for use in solid state drives (SSDs) that can increase data storage efficiency by more than 50 percent.

The 3D NAND flash memory module is a second-gen 10-nanometer-class 128 Gb chip that was made by applying 3-bit technology to a second-gen V-NAND. The second-gen V-NAND started to be mass produced from last May.

The manufacturing process of the second-gen V-NAND was also used in this product, and the amount of data per cells increased from two to three. As a result, the productivity of the 3-bit V-NAND flash more than doubled compared to the existing 10nm class planar NAND flash.

In the past, the 3-bit technology was used in planar NAND flash, and it is the first time for the method to be applied to vertical NAND.

Since 2013, Samsung has been mass producing V-NAND that overcomes the limits of V-NAND micro-processing by vertically stacking cells on top of one another instead of arranging them horizontally.



In May 2014, the chip maker started to mass produce its second-gen V-NAND with a 32-layer cell array structure, an improved version of its first-gen V-NAND (24 layer cells). With the mass production of the 3-bit V-NAND, the company is likely to strengthen its grip of the global NAND flash market.

Meanwhile, Samsung announced on the same day that it will strengthen the lineup of SSDs from existing premium products for service to entry-level products for PCs to expand its share of the V-NAND market.

Frontal Confrontation

Hyundai Motor, Toyota Go Head-to-head in Global Car Market

Taxis fill the streets of Singapore

Hyundai Motor and Toyota, rivals in the global automobile market, are recently making similar moves. While both of them are securing the local demand in Southeast Asia through taxi markets, they are fiercely competing against each other through hydrogen vehicles in the field of future automobiles at the same time.

According to the automobile industry on Oct. 9, Hyundai Motor recently signed a contract to supply a maximum of 3,000 i40 diesel taxis to the ComfortDelGro Group of Singapore by next year. Since Hyundai Motor first made a contract to supply taxis with ComfortDelGro Group in late 2006, Hyundai has supplied an average of 2,000 Sonata taxis every year from 2007 until last year. Hyundai Motor is very popular in the local taxi market of Singapore. In 2010, the market share of Hyundai Motor exceeded the Crown taxis of Toyota. In Singapore, eight transportation companies currently have about 27,000 taxis, and the ComfortDelGro Group has 16,000 taxis, more than half of the total taxis in Singapore. One hundred percent of the taxi models owned by the ComfortDelGro Group are Hyundai Motor vehicles.

An employee at Hyundai Motor said, “64 percent of the total taxis operated in Singapore will be Hyundai Motor vehicles next year. Once we secure a stable market share in Singapore, we will expand our sales networks to the entire region of Southeast Asia.”

Indonesia has 40 percent (250 million people) of the entire population of Southeast Asia, Japanese automobile brands are occupying 90 percent of the market share. Among this, 40 percent of the market share is occupied by Toyota. Toyota vehicles successfully secured their exclusive positions in Indonesia primarily because Toyota formed a partnership with Blue Bird, the national taxi brand in Indonesia. All vehicles operated by Blue Bird are Toyota models.

Fierce competition between Hyundai Motor and Toyota is expected in the market of environmentally-friendly hydrogen-fueled vehicles next year as well.

At the Paris Motor Show 2014 started on Oct. 4, Toyota displayed FCV, its own mass -produced hydrogen-fueled sedan. Toyota will officially launch this hydrogen car in Japan during the first quarter of next year, and plans to release it in the U.S. and Europe next summer. This hydrogen -fueled vehicle of Toyota is capable of driving about 700km on just one charge. It takes about three minutes to charge the vehicle.

Hyundai Motor became a pioneer of hydrogen-fueled vehicle development worldwide as it already started to sell the Tucson IX Hydrogen Fuel Cell in Korea last April. Hyundai Motor succeeded in 350 atm hydrogen charging for the first in the world, and recently completed development of 700 atm compressed hydrogen tanks.

Hyundai Motor established the mass production system of hydrogen-fueled cars at least two years earlier than major global companies. In fact, Mercedes Benz, General Motors (GM), and Toyota plan to mass-produce hydrogen vehicles after 2015. Hyundai Motor is planning to sell 1,000 hydrogen vehicles worldwide, including in Europe, next year.

The largest difference of Hyundai Motor and Toyota is that Hyundai Motor loaded the hydrogen fuel cell system into its existing small sport utility vehicle Tuscon IX, whereas Toyota developed an exclusive model for hydrogen vehicles. Toyota’s hydrogen car is around 70 million won (US$65,314) and Hyundai Motor's one is 150 million won (US$139,959), more than twice Toyota’s price. BK

Growth Pace Crisis

Korean Carmakers Required to Shift Focus from Price Competition to Innovation

Renault Samsung cars line up at a pier preparing to be shipped out of the country.

The pace of the growth of Korean carmakers is falling behind those of global leaders, mainly due to currency exchange fluctuations, sluggish performances in major markets, and the lack of better marketing and quality enhancement strategies.

Credit rating agency Moody's recently predicted that the global car sales would increase by 3.0 percent from a year earlier to 86.8 million units this year. For reference, the sales growth rate had been 3.8 percent in 2013. In contrast, Korean automakers sold 3,301,692 cars during the first nine months of this year to record a year-on-year growth of merely 1.6 percent. They had even posted a negative growth of 3.4 percent in 2013.

In the second quarter, Hyundai Motor Company's operating profits dropped by 13.3 percent from the preceding year to 2.0872 trillion won (US$1.9793 billion). Although the sales volume increased 4.4 percent compared to the same period of last year, the 5.1 percent drop in exchange rate dragged down the sales and profits alike. The combined business profits of Hyundai Motor Company, Kia Motors, and Hyundai Mobis, all belonging to the same Hyundai Motor Group, are estimated at around 3 trillion won (US$2.8 billion) as well, 11.9 percent down from the previous year.

In the meantime, Hyundai Motor Company's and Kia Motors' combined domestic market share fell to 67.3 percent in September, the lowest since December last year, despite the debut of new volume models such as the LF Sonata. Meanwhile, car importers increased their sales by 34 percent year-on-year to be about to break the 15 percent market share mark in Korea.

Korean automakers are struggling in the U.S. market, too. In August 2014, the market showed a sales growth of 17.0 percent from the previous year, but those of Hyundai and Kia were limited to 8.2 percent and 4.0 percent each whereas Toyota (22.8 percent), Honda (26.7 percent), and BMW (35.4 percent) led the rapid growth. During the same month, Hyundai and Kia posted a 10.5 percent year-on-year growth in the Chinese market to barely catch up with the overall market growth rate of 11.0 percent.

"The Korean car industry is the fifth-largest in the world in manufacturing volume, but no Korean vehicle has ever topped the global number one export item list," said Moon Byung-ki, research analyst at the Institute for International Trade of the Korea International Trade Association. He continued, "Korean automakers now need to shift their focus from price competition to innovation for higher technological competitiveness and better quality." BK

1L=50km Competition

Carmakers from Home and Aboard Entering Competition to Dominate PHEV Market Next Year

The Mercedes-Benz S500 plug-in hybrid electric vehicle.

Many plug-in hybrid electric vehicles (PHEVs) that have become the mainstream of environmentally-friendly vehicles will be introduced in Korea next year. As PHEVs capable of guaranteeing around 50km per liter will appear in the Korean market, there will be a strong fever for environmentally-friendly vehicles.

According to sources the industry on Oct. 13, PHEV became the hottest topic at the 2014 Paris Motor Show to end on Oct. 19. PHEVs introduced in this show will be launched in Korea next year.

Finally, automakers from Europe and Japan introduced various PHEV models including sedans, sports cars, and super cars at this Paris Motor Show. These companies wordlessly predicted that PHEVs will become the general trend for a while.

PHEV fever started in Paris this time and will come to Korea next year. In fact, Hyundai-Kia Motor announced that its PHEV models will be released late next year. Many foreign automakers including Toyota are planning to launch their PHEV models late next year as well.

Toyota is welcoming this trend the most. While other automobile companies were focusing on diesel and electric vehicles, Toyota has been concentrating on the hybrid technology and walking the path of an artisan. Toyota will launch the Prius PHV in Korea during the second half of next year. The price of the Prius PHV is 3.3 million yen (approximately 32.9 million won or US$30,737) in Japan. Considering the import costs, the price is expected to be around 40 million won (US$37,572) in Korea.

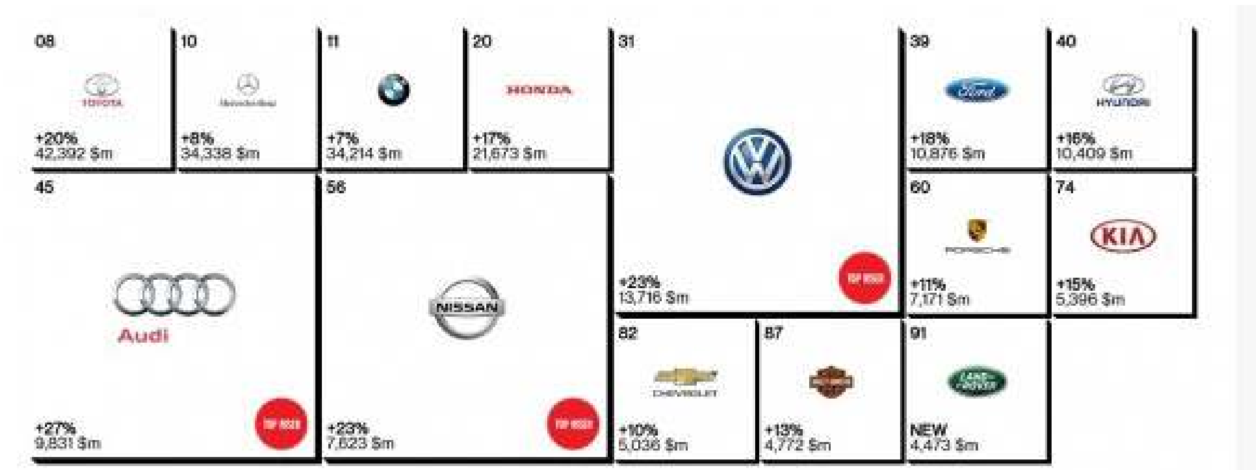
The first PHEV model to be offered to the Korean consumers, though, is likely to be BMW's i8. This model was scheduled to be launched in Korea at the end of this year, but delayed to early next year due to insufficient production. This model has a very good fuel efficiency of 57.6km/l, but the price will be the most important variable for purchasing. The price in Korea is estimated to be around 200 million won (US$188,346). Benz and Audi will release the S500 PHEV and A3 Sportback e-tron, respectively, by next year. Both of these models have fuel efficiency at around 50km/l and will be priced at over 100 million won (US$94,173).

In Korea, Hyundai-Kia Motor will challenge the foreign automakers with its PHEV Sonata and K5 models. Hyundai-Kia Motor plans to secure price competitiveness through 100 percent of domestic production. Specific data on the automobile materials have not yet been disclosed.

In the meantime, the PHEV market will grow very fast, as the government decided to provide subsidies. Considering the proportion of electric vehicle batteries, which is half, the subsidy is likely to be half of the current amount (1.5 million won, or US$1,410). There are not enough charging facilities in Korea yet, but industry projects that such a problem will be quickly solved once the vehicles are officially introduced and sold. BK

Sales vs. Brand Power

Hyundai Motor in Desperate Need of Enhanced Brand Power



Hyundai Motor ranked 7th among global automobile brands, while Kia ranked 11th. Numbers in the top-left corners are rank among all top 100 brands.

Automobiles are not just a means of transportation, but also cultural icons. So, a brand image is essential to determining success in the future automobile market. Unfortunately, the brand power of Hyundai Motor cannot quite match that of the global top 5, and therefore Hyundai Motor needs to work on this urgently.

According to the best 100 brands of 2014 announced by Interbrand on Oct. 9, Hyundai and Kia Motor were ranked in seventh and 11th places, respectively, in the automotive sector. Toyota was global number one, and Mercedes Benz, BMW, Honda, Volkswagen, and Ford followed.

These results for Hyundai and Kia Motor are very contradictory to those of Mercedes Benz, BMW, and Audi, which have highly-appraised brand power in spite of their lower sales records compared to Toyota, the world's number one for both sales and brand power. Mercedes Benz and BMW have sales rankings below the top ten, but their brand power is ranked in second and third places, respectively, far ahead of Hyundai Motor. They definitely prove what name brand recognition means.

Industry professionals generally agree that the above companies have put a substantial amount of time and effort into establishing strong brand value. BK

Rankings of Global Car Manufacturer

Ranking	Sales	Brand Value
1	Toyota	Toyota
2	Volkswagen	Mercedes-Benz
3	GM	BMW
4	Renault-Nissan	Honda
5	Hyundai-Kia	Volkswagen
6	Ford	Ford
7	Fiat-Chrysler	Hyundai
8	Honda	Audi
9	Fuso- Citroën	Nissan
10	Suzuki	Porsche

Source: Interbrand, Korea Automobile Manufacturers Association (KAMA), individ

SUV Popularity

3 of 10 Autos Sold in Korea are SUVs

The "All New Sorento" of Kia Motors has been leading the popularity of SUVs in the local market.

As culture for leisure is spreading and people prefer big cars, sport utility vehicles (SUV) are becoming more popular. In fact, three out of ten automobiles sold in September were SUVs.

According to the automobile industry on Oct. 5, the top five automobile manufacturing companies in Korea sold a total of 94,834 cars last month (excepting commercial vehicles) 10.4 percent more than September last year (85,896 cars).

SUVs were the most sold vehicle in the market. A total of 27,688 SUVs were sold, which accounted for 29.2 percent of total car sales, a 6.1 percent point increase from August last year (23.1 percent).

The sales portion of SUVs has constantly increased for three consecutive months, from 24.8 percent in July to 25.7 percent in August, which means that three out of ten automobiles currently being sold are SUVs.

The popularity of SUVs has been led by the New Sorento of Kia Motors and the QM3 of Renault Samsung Motors.

On the other hand, by automobile type, mid-size vehicles (16,671 cars) were 17.6 percent of the market, and quasi-mid-size vehicles (16,379 cars) were 17.3 percent of total sales, following SUVs. During the same period last year, quasi-mid-size vehicles were 20.3 percent, and mid-size vehicles were 17.9 percent. However, as more people prefer big cars, sales for two vehicle types changed within a year.

Polarized consumption, in which big cars sell well whereas small cars do not, is shown in actual numbers. Last month, sales of mid-size vehicles, quasi-full sized vehicles, full sized vehicles, minivans, and SUVs increased 8.6 percent, 11.2 percent, 33.5 percent, 57.8 percent, and 35.1 percent, respectively. However, sales of compact cars, small sized vehicles and quasi-mid-size vehicles decreased 13.0 percent, 15.0 percent, and 6.1 percent, respectively.

Taste Change

Imported Car Owners in Korea Leaving Diesel

The Hyundai Grandeur Diesel, first revealed at the 2014 Busan Motor Show.

The Korean diesel cars released this year are outperforming market expectations, while the ratio of gasoline vehicles is rising again in the imported car market.

A total of 17,027 imported cars were newly registered in Korea in September, including 11,174 diesel (65.6 percent) and 5,105 gasoline (30 percent) cars. This is the first time this year that the ratio of the latter exceeded 20 percent. The ratio of imported diesel cars in Korea has increased all the way since 2010, from 25.4 percent and 35.2 percent to 51.0 percent, 62.1 percent, and 68.4 percent for the first eight months of this year.

"It seems that not a few customers who bought imported diesel models three to four years ago are turning their eyes toward gasoline or hybrid models for their new cars," said a local dealer, adding, "They seem to be tired of the noise and vibration."

Nonetheless, diesel vehicles' popularity in the overall car market is still high. According to the Korea Automobile Manufacturers Association, no less than 249,407 new diesel cars were registered in Korea for the first half of this year to record a 28.6 percent growth from the preceding year. This year's total is expected to be way over 500,000.

The diesel version of the Chevrolet Malibu has been selected by 4,225 customers until September since its debut in March, accounting for 35.7 percent of the total Malibu sales for the same period. Renault Samsung Motors SM5 D was picked by 2,440 customers during the same period to represent 33.1 percent of the total SM5 sales. The sales volume of the Hyundai Grandeur Diesel reached 4,183, or 19 percent of the total for the model, although the initial target was 10 percent. The three models' sell-through amounted to 1,237, 1,208, and 1,180 each in September alone.

Beating BMW

Mercedes Benz Back to #1 in Local Imported Car Market

The Mercedes-Benz C 220 BlueTEC AMG Line (W 205).

Mercedes Benz beat BMW and reclaimed the number one position in the Korean imported vehicle market by sales within two years and nine months.

According to September monthly sales data published by the Korea Automobile Importers and Distributors Association (KAIDA) on Oct. 7, Mercedes Benz became the number one selling brand with sales of 3,538 vehicles. BMW sold 3,303 vehicles.

In December 2011, Mercedes Benz lost its title as the best selling brand to BMW. After two years and nine months, Benz reclaimed the top position. The E220 CDI, E250 CDI 4Matic, and C220 Bluetec of Mercedes Benz contributed a lot to regaining the number one title with sales of 610, 419, and 342 vehicles, respectively.

Behind Mercedes Benz and BMW, Audi (2,349 vehicles), Volkswagen (2,289 vehicles), Ford (733 vehicles), and Toyota (666 vehicles) followed.

By fuel type, 11,174 diesel vehicles (65.6 percent) were sold. Gasoline (5,105 vehicles, 30.0 percent), hybrid (743 vehicles, 4.4 percent), and electric (5 vehicles, 0.0 percent) cars followed.

The best-selling model was the Volkswagen Tiguan 2.0 TDI Bluemotion, and a total of 719 vehicles were registered. Tiguan is maintaining its position as the number one selling model with total of 6,255 vehicle sales this year. In addition, the diesel Mercedes Benz E220 CDI (610 vehicles) and Audi A6 35 TDI Quattro (446 vehicles) stayed in the high ranks in terms of sales.

In August, the sales volume of imported vehicles decreased slightly, as there were fewer business days due to summer vacation. However, sales increased again in September.

The number of newly-registered imported vehicles increased 3.6 percent to 17,027 in September compared to August. This is a 34.4 percent increase from 12,668 vehicles of the same period last year. Accumulated sales increased 25.6 percent to 145,844 vehicles this year compared to last year. BK

Import Cars Less So

Imported Luxury Cars' Growth in Korea Stagnates 1st Time in 4 Years

The 2014 Hyundai Genesis.

The growth of expensive imported cars in Korea, priced at 40 million won (US$37,977) or higher specifically, has come to a standstill. In contrast, Korean luxury cars have regained a 30 percent market share in the segment for the first time in four years.

According to the Korea Automobile Manufacturers Association (KAMA) and the Korea Automobile Importers & Distributors Association (KAIDA), Korean carmakers sold 47,119 sedans and SUVs in the segment during the first eight months of this year to record a market share of 32.9 percent. Their combined share in the luxury sedan segment had dropped from 51.16 percent to 44.47 percent between 2010 and 2011 and then to 28.58 percent in 2013.

Meanwhile, imported cars have been on a roll in the same segment led mainly by German automakers such as Mercedes Benz, BMW, Audi and Volkswagen. At present, 74.5 percent of the vehicles they are selling are within the price range. However, the percentage is just 6 percent for Korean automakers.

The Korean companies' recovery can be attributed mostly to the second-generation Hyundai Genesis, which made its debut in November last year. The sales volume reached 25,543 units during the eight-month period to more than triple that of a year earlier, and set a new January-to-August high. For reference, the first-generation Genesis had been chosen by 12,147 customers in Korea between January and August in 2013. BK

Scenario Management

CEO of LG Display Leads Surplus Management for Ten Consecutive Quarters

CEO Han Sang-bum of LG Display communicates with young employees.

LG Display (LGD) and Samsung Display, the two leaders of the South Korean display industry, experienced both ups and downs during the third quarter. While the latter is expected to have a sales deficit because of the impact of the slump in wireless business department, the former has recorded a surplus for ten consecutive quarters due to the effect of new iPhone products.

As LGD has been in the black for ten quarters in a row in spite of severe changes in trends in the industry, the "Scenario Management" philosophy of CEO Han Sang-bum is starting to receive attention.

LGD has earned sales profits of 474.1 billion won (US$452.5 million) for the third quarter this year. This figure is 21.8 percent greater than the same period in last year, marking the tenth consecutive quarter of surplus. When compared to the previous quarter, the profit has nearly doubled. Also, sales have increased by 9 percent, which is 6.5469 trillion won (US$6.2529 billion).

The result is higher than market predictions, even considering that demands normally rise in the second half because of seasonal factors and there is an increase in the demand for high-profitability small and medium panels due to the launch of the new product of LGD's major client, Apple.

This excellent trend has been kept alive because of "Scenario Management", the strategy of adjusting a company's portfolio by operating flexible fabs and adjusting the amount of stock.

In other words, it's a tactic of stabilizing a profit structure with an appropriate response system by product according to changes in the demand for small, medium, and large-sized panels.

Due to this strategy, LGD can be flexible not only when focusing on panel production and release, but can also have plenty of stock available in preparation for a period of high popularity of its products.

Furthermore, in response to an increase in demand, LGD makes the best use of available fabs, instead of suddenly increasing production capacity to meet increased demand.

Funds have a difference in profitability by how much importance is placed on them, and whether or not the fund manager adopts the same category. Likewise, adjusting a portfolio through managing flexible fabs can determine the profitability of a manufacturing business.

LGD IR director Kim Hui-yeon explained, "Until now, LGD worked hard to maintain stable profits by strategically securing stock amount, changes in product portfolio regarding the market situation, and so on."

LGD has increased third quarter inventory assets by 600 billion won (US$573 million) compared to that of last quarter in response to the sudden increase in demand of Apple's display panels at the end of the year with changes in managing fabs. It increases "strategic stock" in anticipation of demand from clients.

Chief Financial Officer (CFO) Kim Sang-don said, "The principle is how to maximize existing capacity rather than suddenly increasing production due to a rise in demand."

It seems that this kind of favorable result will continue for a while, because of the prediction of the good sales of the Apple iPhone 6 and the fourth-quarter peak season for TV panels, which includes Black Friday and Christmas, is coming ever closer.

Meanwhile, LGD is pushing ahead with "Sharing Technology," which is transferring unused technology in LGD's patent portfolio free of charge to small and medium-sized companies that need technology, so that the technology can be effectively utilized.

LGD decided to yield the rights to 257 technologies (141 domestic, 116 overseas) for free, including excellent family patents registered in three to six years on commission of the Korea Institute for the Advancement of Technology (KIAT). LGD has evaluated a strategy of application of transferred technology and a specific business plan through technology commercialization, and finally transferred possessions of 35 technologies free of charge to seven small and medium domestic companies. BK

Drastic Reform

HHI Forces All 250 Executives to Submit Resignations while Labor Union Poised to Go on Strike

Kwon Oh-gap, president and CEO of Hyundai Heavy Industries, shakes hands at the entrance gate with each of the union members coming to work on Sept. 23.

With the labor union of Hyundai Heavy Industries expected to take its first strike in 20 years, the National Labor Relations Commission recently decided on an extension of mediation in response to the union's request for mediation. The management and the union are to have negotiations, but have failed to make a breakthrough. Once the union goes on strike, it will be the first walkout in 20 years.

Under the circumstances, the company is expected to face an even more severe crisis in the wake of the record loss of the second quarter.

"It is true that Korea is still the number one in the global shipbuilding industry, but China is emerging rapidly and Japan is recovering itself on the back of the weak yen," said an industry expert, adding, "The strike in Hyundai Heavy Industries will have a negative impact on the entire shipbuilding industry of Korea, as well as the company itself."

Meanwhile, Kwon Oh-gap, president and CEO at Hyundai Heavy Industries, has undertaken radical reform of his company. He ordered all 250 executives at Hyundai Heavy Industries, Hyundai Mipo Dockyard, and Hyundai Samho Heavy Industries to hand in their resignations. It has been one month since his inauguration.

President Kwon has been trying to settle the labor union strikes that plague his company before anything else. However, as the labor union had no desire to start negotiations and indefinitely postponed the vote on the strikes, President Kwon decided to first work on organizational restructuring.

According to Hyundai Heavy Industries on Oct. 12, Choi Gil-seon, chairman at Hyundai Heavy Industries, and President Kwon had an urgent director's meeting at the Ulsan headquarters, and ordered a reorganization plan that entails "collecting resignation letters from all executives above the managing director level." Reorganization and following employee relocations are expected to happen later this month.

At this meeting, President Kwon emphasized, "Executives necessary for new organization will be reappointed, and capable general managers will be promoted early. I will transform this organization to be young and energetic."

Hyundai Heavy Industries will expand the production and sales organizations and minimize the administrative and support organizations for all three companies, so that their corporate culture can improve.

Another issue was to cut the production costs. Marginal businesses from which it is hard to make profits as well as overseas offices will be fundamentally reviewed. Any reducible costs will be cut, and necessary ones will be shrunk as well. BK

Petty Trick

IKEA Criticized as Only Paying Lip Service to Community Cooperation Regulations

IKEA, which starts its business in Korea in December, is said to be planning to open not a furniture store but a shopping mall. This could affect the regional economy to a significant extent.

"IKEA built two buildings in Gwangmyeong, Gyeonggi Province, and leased one of them to Lotte Shopping," said Democratic United Party lawmaker Hong Ik-pyo on October 13, adding, "A Lotte outlet housed in the IKEA building signifies a shopping town, which is a business trick." He continued, "IKEA is exempted from the obligatory shutdown applied to major supermarkets, and small businesses and owner/operators could be affected."

Some say that the Swedish furniture retailer is planning to neglect its duty to cooperate with the local community. According to plans previously submitted to Gwangmyeong City, it will provide an exhibition space for local small businesses in its store and hire 300 residents in the region on a preferential basis. However, the exhibition space has been found to be located near the parking lot, which is less accessible, and the 300 workers will have close to part-time schedules. "It has been found that the cooperative measures are just face-saving ones," the lawmaker criticized.

Controversy over Particle Board Tariff

In the meantime, conflicts between the furniture and wood panel industries have ignited again regarding the tariff on particle board (PB). All these conflicts started when the furniture industry, threatened by IKEA's upcoming entry into the Korean market, requested the Ministry of Trade, Industry and Energy (MOTIE) to lift the tariff on PB. The two industries promised to figure out ways to coexist, as the Korea Wood Panel Association (KWPA) withdrew the extension of anti-dumping tariffs on imported PB. However, with IKEA imminent, the two industries are at war again.

According to the related industries on Oct. 14, both the furniture and wood panel industries are very persistent over lifting the tariff on PB. Currently, the MOTIE is discussing with the Ministry of Strategy and Finance whether to lift the tariff.

A representative from the furniture industry welcomed such an action and insisted, "The final products of furniture are imported without tariffs, but 8 percent of the tariff is reversely imposed on PB, raw materials for furniture. Korean companies that manufacture furniture using PB are inevitably hurt."

However, the wood panel industry is maintaining its strong stance of never accepting tariffless PB. The wood panel industry also refuted the reverse-tariff claim of the furniture industry. KWPA argued, "Not only Korea, but also China, Southeast Asia, and Europe are maintaining tariffs on materials such as PB, and no tariffs on the final products of furniture, in order to support the material industry. As we gave up extending the anti-dumping tariff on imported PB, more and more PB is being imported. If the tariff is lifted at all, the foundation for domestic production will be lost."

Some wood panel companies are even claiming to impose a tariff on furniture instead of lifting the tariff on PB. However, the MOTIE expressed strong disapproval of this idea by explaining, "After Korea joined the World Trade Organization, tariff on furniture has been lifted after a ten year grace period, and this cannot be revoked."

As KWPA claimed, the market share of imported PBs actually increased a lot after the withdrawal of the extension of the anti-dumping tariff. The market share of imported PB was 48.1 percent in 2012, but hiked to 51.7 percent last year, and finally to 57.4 percent for the first half of this year. The wood panel industry is currently facing three major difficulties of an increasing market share of imported products, a lack of raw materials, and controversies over tariffs. BK

Sandwich Situation

Korean Medical Equipment Manufacturers under Heavy Pressure

Korean medical appliance manufacturers could be sandwiched between global leaders such as GE, Siemens, and Philips and their Japanese and Chinese counterparts.

According to the Samsung Economic Research Institute, the global healthcare market is estimated to grow 6.8 percent each year between 2013 and 2020 from US$4.3 trillion to US$6.9 trillion. The in-vitro and image diagnosis equipment segment reached US$100 billion in size as of the end of last year, when the therapeutic apparatus segment reached US$67 billion.

GE, Philips, and Siemens, the three largest players in the industry, are expanding their business by means of aggressive investment in smart care, in-vitro diagnosis, and comprehensive diagnosis systems as well as CTs and MRIs. In particular, they are picking up speed in the emerging markets including the Middle East, China, and India, where the annual growth rate reaches at least 10 percent. Their presence is a sort of entry barrier against the Korean companies that are trying to enter the markets, after failure in advanced countries.

Japanese medical equipment manufacturers, in the meantime, are regrouping themselves. The Japanese government recently picked medical exports as one of its key economic growth strategies to support package export of medical institutions, equipment and medicines. The companies' advanced technological strength is likely to be redoubled with the assistance from the government.

Toshiba launched Toshiba Healthcare by gathering its healthcare business units. The subsidiary is aiming to record US$10 billion in sales in 2017. Hitachi's newly-established Healthcare Business Strategy Headquarters is planning to record US$6 billion in 2018. Sony started the medical appliances business last year by setting up a joint company with Olympus, which topped the global endoscope market in 2013. Nikon is going to enter the market as well by investing US$2 billion.

Chinese manufacturers are expanding their lineup from mass-market to high-end products, too. The Chinese government announced its 12th five-year plan for medical equipment industry development two years ago. Eight to 10 large medical equipment enterprises will be grown to have a size of five billion yuan or more each, so the export ratio can exceed 5 percent.

Mindray Medical, one of the medical device makers representing China, achieved a 27 percent growth between 2007 and last year. Its annual sales amount to US$1.2 billion now. The company acquired Zonare, an American ultrasonic diagnosis system developer, last year to supply its high-end products to the U.S. and European markets. BK

Duty-free Rebates

Rebates from Duty-free Shops Amount to 1.1654 Trillion Won Since 2009

Hotel Shilla recently obtained a license for a duty-free shop inside Macau International Airport.

Korean duty-free shops have paid over 1.1654 trillion won (US$1.0957 billion) of rebates to travel agencies and tour guides in exchange for bringing tourists from 2009 until August this year.

According to the Inspection of State Administration (ISA) data that the Korea Customs Service submitted to Congressman Hong Jong-haak (from the New Politics Alliance for Democracy) at the Strategy and Finance Committee of the National Assembly on Oct. 14, 83.3 percent of total rebates, equivalent to 976.8 billion won (US$917.5 million), were paid by Lotte duty-free Shop and Shilla duty-free Shop.

During the first half of this year until August especially, the total rebates paid to travel agencies and tour guides reached 304.6 billion won (US$286.9 million), which already exceeded the total rebate amount of last year.

By year, rebates have increased steadily from 100.1 billion won (US$94.02 million) in 2009 to 100.6 billion won (US$94.55 million) in 2010, 142.6 billion won (US$133.9 million) in 2011, 220.1 billion won (US$206.9 million) 2012, and 296.6 billion won (US$278.9 million) in 2013.

Congressman Hong speculated on the reasons for increasing rebates by saying that the duty-free shops of large conglomerates entered into excessive competition due to an increase in Chinese tourists, the majority of which belong to low-priced group tours.

The number of foreign tourists visiting Korea increased 55.8 percent from 7.82 million in 2009 to 12.18 million last year. The number of Chinese tourists in groups hiked 223.1 percent from 1.34 million to 4.33 million last year.

Hong pointed out, "As sales to Chinese group tourists are increasing, competition among large duty-free shops is becoming more intense. Accordingly, rebates continue to increase as well. In this situation of excessive competition, small and medium-sized duty-free shops are inevitably hurt. Therefore, there shall be reasonable regulations on rebates."

In the meantime, Hotel Shilla announced on Oct. 14 that it obtained a license to conduct duty-free business at Macau International Airport, following Singapore Changi Airport, and will start doing so on Nov. 7. Hotel Shilla participated in the tender to acquire the duty-free shop license by establishing a joint company "Sky Shilla duty-free" with "Sky Connection," a duty-free shop operator in Hong Kong. Hotel Shilla owns 40 percent of the joint company, whereas Sky Connection owns 60 percent. Hotel Shilla will be in charge of perfume, cosmetics, and fashion brands, whereas Sky Connection will handle liquor, cigarettes, and local products. BK

Algae-based Biodiesel

Korean Research Team Discovers Clue to Produce 3rd Gen Biofuel from Red Algae

Red algae sometimes blooms along a shore, causing irritation to swimmers.

A Korean research team headed by Choi In-gul, a professor at the Department of Biotechnology at Korea University, has successfully defined the fermentation process of red algae and found a clue to making ethanol, a 3rd gen fuel for vehicles.

The production of ethanol from marine algae, which are abundant, could replace a significant portion of gasoline consumption. In particular, red algae contains a lot of carbohydrates, which make those plants ideal for the production of bioethanol. But production has been limited, since the metabolic pathways of 3,6-Anhydro-L-galactose (L-AHG), which makes up the major ingredient of red algae, have not yet been mapped.

However, the research team has succeeded in separating Vibrio vulnificus, which live on L-AHG, and defining the metabolic pathways in which this microorganism breaks down the main ingredient of red algae.

The production of ethanol from red algae will be made possible by fermenting L-AHG, using colon bacillus with new fermentation enzymes included in the newly-discovered metabolic pathways.

After applying new fermentation enzymes to colon bacillus that are used to make ethanol, the production of ethanol increased 24 percent compared to existing colon bacillus utilized to produce ethanol. Professor Kim said, “We anticipate that the newly-developed method could be used as core technology to produce biofuel and bioplastics using seaweed biomass as a source of energy in our country that lacks lignocellulosic and herbal biomass.”

The study was funded by Korea’s Ministry of Science, ICT and Future Planning (MSIP), under the project to support leading researchers. The research findings were first published online on Sept. 30 by Environmental Microbiology, a monthly scientific journal published by the Society for Applied Microbiology and John Wiley & Sons. BK

Solar Cell Tech

Tech to Drastically Reduce the Manufacturing Costs of Solar Cells Developed

A typical solar cell farm.

The Korea Institute of Energy Research (KIER) announced on Oct. 6 that its research team successfully developed a new method to cut manufacturing costs in half while maintaining the optical conversion efficiency of crystalline silicon solar cells.

A technique developed by a research team led by Dr. Song Hee-eun at the KIER can make solar cells more economically feasible. It involves using half the amount of silicon, which comprises the largest proportion of the cost to manufacture crystalline silicon solar cells. The procedure is also more simple, cutting costs further.

Solar cells can fully absorb sunlight with a 50 μm silicon substrate. However, when solar cells are made using thin substrates, those substrates can easily break. Hence, 180 μm silicon substrates are used at the moment.

The research team solved the existing problem by developing a cheaper technique to mass-produce crystalline silicon solar cells with 100μm silicon substrates that are highly durable.

In the past, heteroepitaxial solar cells, which are very efficient in converting sunlight into electricity, had problems related to equipment and rising costs, since the multi-layered silicon film on the front and the transparent conductive film on the back of the silicon wafers were created gradually and separately. Now, it is possible to reduce the amount of equipment and the manufacturing process by half via creating solar cells with the simultaneous creation of the silicon film and the transparent conductive film on the front and back of the silicon wafer.

Dr. Song remarked, “We are trying to develop a method that can reduce the width of a silicon substrate up to 50 μm and increase the optical conversion efficiency from 18.5 percent to more than 20 percent.” The researcher concluded by saying, “We will make efforts to contribute to increasing our share of the global market through commercialization in partnership with a local company within one to two years.” BK

Wireless Power Commercialization

Wireless Power Charging of Wearable, Implanted Devices to be Commercialized

A research team led by Professor Rim Chun-taek at KAIST (left) operates an LED TV using a new wireless power transmission tech.

Imagine walking down the street and recharging your smartphone at the same time because you are in range of a "Wi-Po Zone," a wireless power transmission area. The technology to make this possible is being developed by a KAIST research team led by Professor Rim Chun-taek. They are developing a wireless power transmission technology that they call the Dipole Coil Resonant System (DCRS). BusinessKorea previously reported on their progress back in April. They have already succeeded in sending 209W of electricity from a distance of 5m, which is the furthest wireless power transmission record in the world.

Current long-distance wireless power transmission technology is based on a Coupled Magnetic Resonance System (CMRS) developed at MIT in 2007, and this technology can send 60W of electricity 2.1m through the air. However, this technology has not been able to be commercialized for more than six years due to several factors. The method requires four complex coils (input coil, transmitter coil, receiver coil, and subordinate coil), which must be quite large in size. It also has low efficiency caused by using a high frequency of over 100MHz, and too much sensitivity to external factors like temperature changes.

The research team's work on DCRS is designed to overcome the weaknesses of CMRS. With DCRS, the research team reduced the number of coils to a single transmitter and single receiver coil, which are only 10 percent of the size of the originals, by using dipole-structured high-frequency magnetic substances. Due to less fluctuation in the low frequency used, DCSR is 20 times sturdier against changes in the environment, and much more efficient at the same time.

If this technology is successfully commercialized, wearable devices, medical devices like hearing aids, and even in-body chips will be able to be recharged wirelessly. Applications to various fields are expected.

The research team of Professor Rim aims to expand the transmission range to over 10m through the commercialization of the research results via the support program of the Ministry of Science, ICT and Future Planning. The research team also plans to establish a company to achieve successful commercialization of the research results.

Professor Rim said, "If this technology is commercialized, wireless power zones can be created nationwide, just like the current Wi-Fi zones. With the complete establishment of a ubiquitous environment through wireless communication and wireless electricity, Korea can become the true global IT leader." BK

Nanoparticle Tech

Korean Research Team Develops Tech to Improve Efficiency of Nanoparticles

Gallium-based blue LEDs.

The Korea Research Institute of Standards and Science (KRISS) announced on Oct. 14 that a research team led by Dr. Kim Young-sung from the Center for Nanomaterials Characterization at KRISS has successfully developed a method to maximize product efficiency by changing the structure of nanoparticles.

Currently, LED traffic lights nationwide are made by making a thin film out of gallium nitride. When the thin film is instead created using nanoparticles, it is possible to more than double the time that the traffic lights can last while using less electricity.

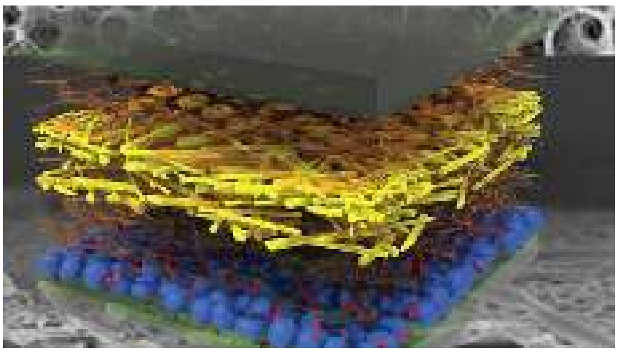
The research team found out that when the nanoparticle structure of the gallium nitride thin film changes into a triangle form, the distance between negative and positive electrons is minimized.

Thanks to this discovery, the team made 50 other structures for major semiconductor materials such as zinc oxide used in auto electrical devices and cadmium sulphide needed for optical sensors and photovoltaic power generation.

Dr. Kim remarked, "As gallium nitride is widely used in the semiconductor industry, many companies will be able to utilize the information on the structure of nanoparticles and manufacturing conditions for their own specific products." He concluded by saying, "Based on this achievement, we will make an effort to develop a technique to make photoelectronic devices using nanoparticles." BK

Solar Cell Safety

Korean Research Team Develops Dye-sensitized Solar Cells



The focus of the paper is the development of this triple-layer membrane, which makes cheaper and safer solar cells possible.

Sejong University announced on Oct. 13 that a study conducted by a joint research team with the Ulsan National Institute of Science and Technology (UNIST) was selected as a cover article in the Sept. 16 issue of Advanced Energy Materials, a scientific journal published by Wiley-VCH. The team was led by Hong Sung-chul, professor of the Department of Nanotechnology and Advanced Materials Engineering at Sejong University, and Lee Sang-young, professor at UNIST.

The title of the study is "Solar Cells: Triple-Layer Structured Composite Separator Membranes with Dual Pore Structures and Improved Interfacial Contact for Sustainable Dye-Sensitized Solar Cells."

The research findings were recognized for their contribution to enhancing the safety of solar cells by designing a separator membrane with a triple-layered structure and changing the structure of hydrocarbons so that the separator membrane can be used in dye-sensitized solar cells.

Dye-sensitized solar cells can produce electricity using a dye that generates power from the sun, and they have high energy efficiency thanks to cheap organic dye and nanotechnology. The manufacturing cost of dye-sensitized solar cells can be up to three times less than that of existing silicon-based solar batteries.

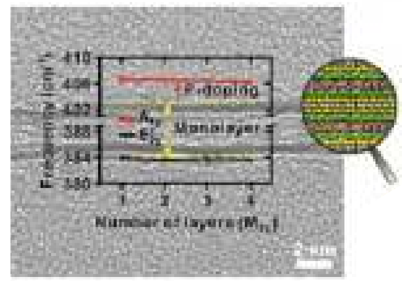
In particular, when used in glass, the dye-sensitized solar cells can either be transparent or give off various colors. It is also possible to put them on a window or windshield, since they let visible light through.

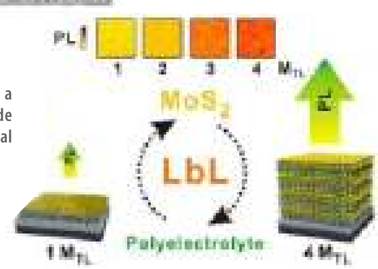
The research team anticipates that the study will become an example of the convergence of different technological areas such as lithium-ion batteries and dye-sensitized solar cells.

Professor Hong said, "I hope that our research findings will contribute to the commercialization of dye-sensitized solar cells." BK

Luminous Efficiency

Joint Research Team Develops High-performance Light-emitting Structure





Electron microscopy (left) and a diagram of molybdenum disulfide (MoS2) multilayers with functional polyelectrolyte nanospacing layers

A joint research team led by Kim Byung-soo, professor at the Ulsan National Institute of Science and Technology (UNIST), Ryu Soon-min, professor at the Pohang University of Science and Technology, and M. Chhowalla, professor at Rutgers University, successfully developed a large-scale nanometer-thick light-emitting structure and explained how it works.

They were able to improve the light-emitting efficiency by four times by staking a graphene-like thin semiconductor on top of a polyelectrolyte.

According to the UNIST on Oct. 21, molybdenum disulfide (MoS2) is a representative two-dimensional semiconductor material that emits more lights when it is thinner, and is suitable for displays or photoelectric devices.

However, the development of MoS2 as photoelectric devices like displays or LED hasn't been successful due to low light-emitting efficiency, as multi-layer stacking hinders the absorption and release of light.

The research team was able to make a light-emitting nanofilm by piling up MoS2 and a polyelectrolyte in an alternative way.

The newly-developed material is expected to become a major breakthrough in the development of light-emitting devices that can be used in flexible displays and ultra-light electronics devices. So far, only single-layer materials have been studied.

It was found that MoS2 in a four-layer stack can lead to a four-fold increase in light-emitting efficiency. This phenomenon is due to the fact that it is possible to effectively block

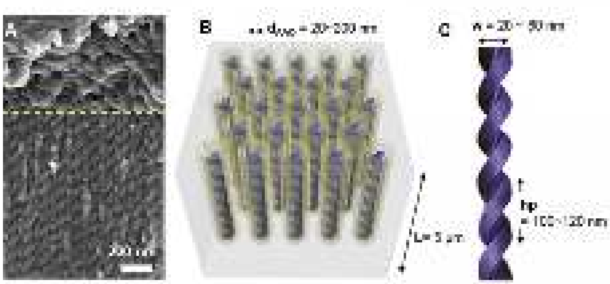
interlayer coupling between two-dimensional semiconductors by stacking up a polyelectrolyte between MoS2. Moreover, polyelectrolyte layers provide a large amount of positive charges, which help MoS2 emit light.

In addition, the new structure can control the thickness of the layer, since semiconductors are stacked up in the manner of self-assembly of multilayer thin films using static electricity.

The research findings were first published online on Sept. 29 by Nano Letters, a monthly scientific journal published by the American Chemical Society. BK

NT-IT Convergence

Korea Research Team to Develop Chiral Helical Nanofilaments



The Korea Advanced Institute of Science and Technology (KAIST) announced on Oct. 20 that a research team led by Yoon Dong-ki, professor from the Graduate School of Nanoscience and Technology at KAIST, has successfully developed a technology to create high-precision chiral helical nanofilaments.

This technology can turn a helical structure, which is most difficult to create among three-dimensional structures, into various forms in a larger area.

The research team was able to develop nanofilaments using ductile materials like polymers and liquid crystals, which can be assembled or separated in nanometer spaces according to surrounding conditions such as temperature and density.

This structure made of liquid crystal, which is in a state between a liquid and a solid, can maintain a homogeneous helical form in 20 to 200 nm of space.

This method will make it possible to store hundreds of times more data, since a 3D patterning is possible. The capacity will go beyond the current two-dimensional photo-engraving manufacturing process used to produce semiconductors.

In addition, it will be possible to greatly reduce manufacturing costs by drastically decreasing manufacturing processing.

Professor Yoon said, "Based on this newly-developed technology, I think that we will be able to find growth engines in liquid crystal-related fields like LCDs by integrating nanotechnology into information technology."

The research findings were first published online on Oct. 7 in the Proceedings of the National Academy of Sciences of the United States of America, a scientific journal published by the United States National Academy of Science. BK

Graphene Composite

Transparent Electronic Tattoos Developed

UNIST Professor Park Jang-woong (right) and the transparent electronic tattoo (inset) he developed with other researchers.

New materials engineering professor Park Jang-woong at the Ulsan National Institute of Science and Technology (UNIST), Korea Advanced Institute of Science and Technology (KAIST) professor Bae Byung-soo, and Electronics and Telecommunications Research Institute (ETRI) Director Choo Hye-yong announced on Oct. 20 that their research team developed an advanced transparent graphene electrode production technique with which electrical characteristics can be maintained even after folding or pulling.

According to the team, the electrode can be used to make micro-mini transparent electronic circuits that can be easily attached to the skin, glass, leaves, or other delicate objects. When used with the human skin, the circuit functions as a transparent electronic tattoo like a sticker, for display purposes or bio-signal measurement.

During the research process, a graphene composite was used to lower the resistance of the transparent electrode to approximately 1/20th of existing ones. This means that the electronic tattoo can be utilized as a component of flexible displays or in circuits and sensors.

The team succeeded in addressing the problem by combining graphene with a metallic fiber. The fiber, as long as several meters, reduced the connection resistance, so smooth electron movement was ensured within the graphene composite.

Semiconductor processes already in wide use were adopted for the production of the composite, and thus the electrode patterns could be obtained with ease. BK

Inside Bitcoins

Bitcoin Conference Scheduled for December in Korea

Blockchain CEO Nic Cary speaks at Inside Bitcoins New York on April 7.

Inside Bitcoins Conference & Expo 2014 will take place on Dec. 12 and 13 at the KINTEX Convention Center located in Ilsan, Gyeonggi Province. Co-hosted by MecklerMedia and KINTEX, the event will also be held in the United States, Britain, France, and Israel each year, in nine countries in total.

Bitcoins are a virtual digital currency that is free from government control and is publicly verifiable. It can also be used anywhere in the world. These days, Apple, PayPal, Baidu, Foodler and many more are adopting the currency in spite of concerns over fluctuations in the value of the money out of government control and the long verification times on transactions.

At this year's Inside Bitcoins Conference & Expo, more than 15 speakers are slated to cover a wide variety of topics in such fields as virtual currency and payment, online retail, fintech, security solutions, finance and investment consulting, online games, and future studies.

One of the speakers is Korea University computer science professor In Ho, who is going to look into specific application examples of the Internet of Things (IoT) and bitcoin payment systems. Hanyang University professor and InfraBasic CEO Kim Il-sun will make a presentation on how the bitcoin will shake the foundation of the economy as we know it and contribute to the formation of a new digital economy. Devign Lab CEO Cha Myung-hoon's presentation topic will be bitcoin exchange security from the viewpoint of a hacker.

Foreign speakers include AlphaPoint Vice President Scott Bambacigno, Kapronasia founder Zennon Kapron, and BitMEX founder Arthur Hayes.

Inside Bitcoins Conference & Expo 2014 Overview

Title	Inside Bitcoins Conference & Expo 2014
Date	Dec. 12 to 13, 2014
Venue	KINTEX 2, Hall 6C (about 2,000m2)
Size	Conference - about 300 guests from 15 countries Exhibition – 30 sponsor booths and 3,500 guests from 15 countries
Exhibitors	Domestic and global bitcoin trading venues, bitcoin operators, bitcoin ATM, ICT security companies, online retailers, investors, startup businesses
Organizer	KINTEX, MecklerMedia
Website	www.insidebitcoins.co.kr
Phone	For booth and sponsor - 031-810-8076 (Korea) For conference – 031-810-8074 (Korea) For media partner and other inquiries – 031-810-8321 (Korea) Mecklermedia Corp. – 212-389-2000 (US)

Market Shift

Imported Fashion Brands Trying to Shake "Arrogant, Pretentious" Image

Consumers' perceptions of brands are shifting from "essential luxury goods" to "arrogant and pretentious.

Premium brands like Gucci, Hermes, Prada, and Ferragamo are losing their iron-handed grip on the Korean fashion market, as perceptions of their brands are shifting from "essential luxury goods" to "arrogant and pretentious." Market analysts are attributing this shift to consumers valuing smart, hit items over general brand value, and also the growing popularity of direct market purchasing channels online.

Therefore, the brands are attempting to modify their perception in the local to market to be more free-spirited and appealing to younger consumers by entering into cheaper non-metropolitan areas and changing their existing market spaces.

According to sources in the industry, luxury brands are now actively engaged in expanding their clientèle to target VIP clients in non-metropolitan areas, as metropolitan brand loyalty is not as high as before. Previously brands only had stories in Seoul and a few other locations, and only granted low commissions to major department stores. But this tactic is changing.

Ferragamo Korea's experience over the past few years tells a common story with luxury brands. Sales consistently grew from 97.2 billion won (US$91.5 million) in 2011 to 98.4 billion won (US$92.6 million) in 2012, and finally to 111.9 billion won (US$105.3 million) in 2013. Yet operating profits halved, from 21 billion won (US$19.7 million) to 10.7 billion won (US$10.1 million), within two years. Due to this drastic cut in profits, Ferragamo is trying to change its image by introducing "Jelly Shoes" this summer that have a youthful appeal, in order to lead the market again.

Gucci Korea's sales also decreased by 5.2 percent to 242.5 billion won (US$228.6 million) last year compared to the previous year. The brand is also trying to get back Korean customers by opening a pop-up Gucci Caffe on the first floor of Hyundai Department Store, close to the Trade Center, from Oct. 1 to Nov. 16. Gucci is showing respect to the Korean market by using Hanji, traditional Korean paper, at this café.

Maison Hermes Dosan Park, which opened in Sinsa-dong in 2006, has been remodeled, and will reopen on Oct. 2. Atelier Hermes, a space to exhibit art pieces previously located on the third floor, has been moved to the first basement level and transformed into a large-scale contemporary art exhibition space. A book café has also been placed right next to the gallery so that anyone can visit and enjoy the exhibition for free. All these activities are interpreted as strategies to enhance the brand accessibility of Hermes stores by intriguing potential customers. BK

Bumpy Road Ahead

Imported Cigarettes Shunned by Consumers in Korean Market

Although the foreign cigarette makers are trying to deal with the situation by means of large-scale restructuring, things are pretty unfavorable for them.

Imported cigarettes are losing ground in the Korean market due to the price hike last year, and the non-smoking trend of those in their 20s and 30s.

According to the Korea Tobacco Association, British American Tobacco (BAT) Korea's domestic market share decreased 1.1 percentage points to 11.6 percent between the first halves of 2013 and 2014. The company, which supplies Dunhill, Kent and so on, had been second only to KT&G in the market until as recently as 2010. At that time, its market share had reached as high as 17.6 percent.

That of JT International (JTI) dropped 0.6 percentage points to 6.3 percent during the same period, and Philip Morris Korea, which had raised its share from 16.9 percent to 19.9 percent between 2010 and 2011, failed to increase its sales more recently. Meanwhile, KT&G's share rose from 61.7 percent to 62.3 percent during the period, thanks to its new products. The Korean company's market share had dipped below 50 percent in 2010.

Industry insiders attribute the decreasing popularity of imported cigarettes to the price hike in 2012 and 2013. Although the foreign cigarette makers are trying to deal with the situation by means of large-scale restructuring, things are pretty unfavorable for them. BAT Korea recently reduced the number of its sales employees from 500 to approximately 300, and JTI is going through conflicts with its employees over the same issue. BK

현대자동차그룹 동행어 사전

동행의 의미를 새롭게 바라보는 현대자동차그룹의 이야기는 계속됩니다

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첫운전

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명 1 생애 처음 자동차를 움직여보며 안전에 대해 배워보는 일

어린이들이 직접 차를 운전해보며 교통안전을 배우는 곳이 있습니다
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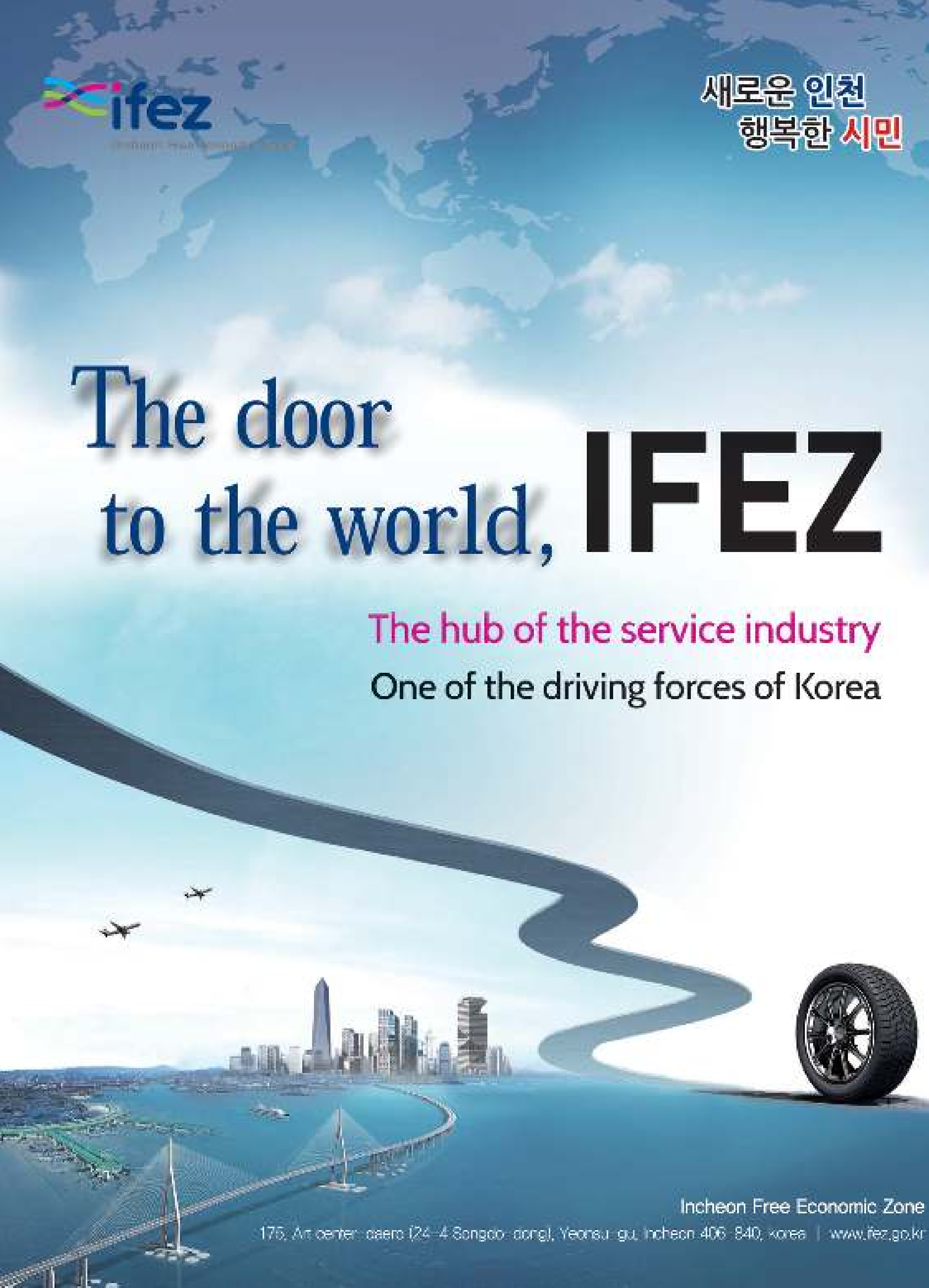
어린이가 안전한 세상을 만들기 위해 현대자동차그룹이 함께 합니다

{ 어린이들을 위한 다양한 교통안전교육 활동을 통해 안전한 대한민국 만들기에 동참하는 현대자동차그룹 }



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